

Austria	5630	Indonesia	8790	Pakistan	8420
Bahrain	5630	Iran	8420	Philippines	8420
Belgium	5630	Italy	8420	Portugal	8420
Cyprus	5630	Japan	8420	Spain	8420
Greece	5630	Korea	8420	Singapore	8420
Denmark	5630	Malaysia	8420	Sri Lanka	8420
Egypt	5630	Morocco	8420	Taiwan	8420
Finland	5630	Norway	8420	Thailand	8420
France	5630	Oman	8420	Turkey	8420
Germany	5630	Qatar	8420	UAE	8420
Ghana	5630	Romania	8420		
Hong Kong	5630	Saudi Arabia	8420		
India	5630	South Africa	8420		



EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

GERMANY

Unification not as easy as it looks

Section III

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Monday October 28 1991

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World News Business Summary

Pro-Solidarity parties take narrow lead in Poland

Pro-Solidarity parties took a narrow lead in Poland's parliamentary elections, closely followed by post-communist groups, according to computer predictions based on an exit poll. Page 18

Mobutu blames west
President Mobutu Sese Seko of Zaire rejected any serious political compromise and hit out at western countries which, he said, wanted his head at any price. Page 18

Tip-off to drug dealers
A tip-off from inside the US government may have allowed international drug dealers to withdraw millions of dollars from the Bank of Credit and Commerce International days before the arrest of bank employees on money laundering charges. Page 4

Communists regroup
Soviet Communists formed a new organisation, the Socialist Party of Russian Workers, to fight for the rights of the Communist Party suspended after August's failed coup.

Israeli soldier injured
An Israeli soldier was critically ill after a concrete block was dropped on a passing patrol in the occupied West Bank. Talks game plan, Page 31. Editorial comment, page 16

Wedding guests killed
Six people died when unknown attackers tossed a hand-grenade into a crowded room at a wedding feast near Durban in South Africa's Natal province. All-party plea, Page 4

Warehouses plundered
Some 2,000 Albanians stormed a warehouse packed with Western aid in the northern town of Shkoder, the second such raid in a week. Newspapers blamed local distribution delays.

Greek minister sacked
Greek premier Constantine Mitsotakis sacked senior cabinet minister Mihailides Evert, who was in charge of civil service reform, after a reported dispute on the handling of foreign policy. Page 2

French jobs rises
French unemployment, an increasing source of anxiety to the socialist government ahead of next spring's regional elections, surged in September to a record 2.77m. Page 2

Action sought on fish
EC governments will be asked in Luxembourg today to end more than a year of delay on measures needed urgently to conserve stocks of fish in Community waters. Page 2

Setback over temple
The religious organisation vowing to build a temple at the site of a mosque at Ayodhya in northern India has been thrown into confusion by a court ruling. Page 4

Scrolls access widened
The Israeli custodians of the Dead Sea scrolls abandoned efforts to limit access to the biblical documents, ending a scholarly monopoly that existed for nearly half a century.

Colombian elections
Colombians voted under heavy guard for a new Congress and provincial governors in elections expected to end the dominance of the Liberal and Conservative parties which have ruled the country for more than 150 years.

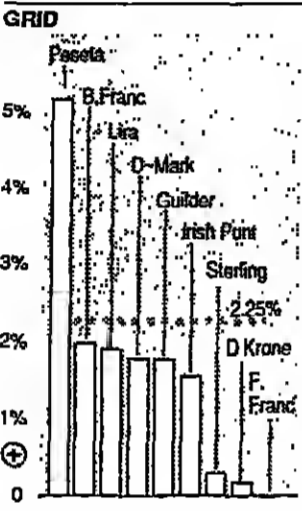
Australia, England win
Australia and England meet at Twickenham in the World Cup Rugby final on Saturday. In the semi-finals, Australia defeated New Zealand 16-6 in Ouhlin and England beat Scotland 9-6 in Edinburgh.

McDonnell seeks orders for rival to Boeing 747

McDonnell Douglas, US aerospace group, is to take orders for its proposed MD-12 wide-bodied aircraft, a rival to the Boeing 747 jumbo jet. The announcement does not mean that the financially stretched company has secured funds to build the aircraft, but the fact that the company's board is prepared to give its civil aviation subsidiary the go-ahead to seek orders suggests its negotiations to raise the cash are on track. Page 18

EUROPEAN Monetary System:
The Spanish peseta extended its lead at the top of the ERM grid after the Bank of Spain reaffirmed its money market operations that interest rates would be unchanged. The French franc was at the bottom of the system after a week of protest against the government. Currencies, Page 28; Economics Notebook, Page 19

EMS October 25, 1991



The chart shows the member currencies of the EMS narrow band measured against the weakest currency in the EMS's narrow band. In practice, currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling and the Spanish peseta operate with 6 per cent fluctuation bands.

NEWS Corporation, Rupert Murdoch's international media group, is considering plans to raise \$300m-\$500m in new money before the end of the year. Proposals have received favourable response from New York banks. Page 18

ROLLS-ROYCE and British Aerospace which form the core of the British aerospace industry, have cut sharply repayments of UK government launch aid. Page 8. BAe cash call hopes dwindle, Page 19

BRITISH RAIL, UK rail operator, is planning to cut the cost of acquiring a £100m (\$171m) fleet of freight trains, by leasing some of the trains from French banks rather than buying them outright. Page 18

UK government ministers are this week expected to complete negotiations on next year's public spending totals without recourse to adjournment. Editorial Comment, Page 16

HOESCH, German steel and engineering company subject to a hostile bid by Fried Krupp, dismissed a leading member of its board. Page 21

MATRA, French space, telecommunications and transport group, saw first half profits fall steeply. Operating profits were more than halved year on year to FF7317m (\$55m). Page 21

RTV, UK independent regional television contractor, is to impose a pay freeze and further redundancies after its successful £30.53m (\$35m) bid to retain its franchise. Page 20; Observer, Page 16; TV auction on for wrong reasons, Page 17

British PM plans parliamentary debate on European integration Major to face critics on Emu

By Philip Stephens, Political Editor, in London

MR JOHN MAJOR, the British prime minister, plans to confront rightwing critics in the ruling Conservative party by staging a two-day parliamentary debate on European integration ahead of the Maastricht summit in December. The strategy, designed to assert his authority over the party, raises the possibility of a public clash with Mrs Margaret Thatcher, his predecessor, about his intention to sign a deal on economic and monetary union (Emu). Mr Norman Tebbit, the former party chairman, yesterday added his influence to the small but vocal group of conservative MPs who believe Mr Major should not agree to a single European currency. Speaking on BBC television's On the Record programme, Mr Tebbit said a single currency would reduce the role of the British chancellor of the exchequer to that of "the treasurer of a rate-capped local authority". He hinted strongly that if a deal was reached he would back calls for a referendum on the issue. Close political allies of Mrs Thatcher said Mr Tebbit's views echoed her own. They expected the former prime minister to set out her opposition in the pre-Maastricht debate. Ministers, however, voiced confidence that the debate would demonstrate "overwhelming" support within the Tory party for Mr Major. And one said last night: "He wants agreements on economic and political union which keep Britain in the mainstream. But there will be no wholesale transfer of sovereignty to Brussels". Downing Street indicated that the latest Dutch proposals for a treaty on Emu, which reserve to a future parliament a final decision on participation, broadly met British concerns. It was now clear that Mr Major would not be faced at the summit with attempts to "impose" a single currency. The compromise, to be published tonight in The Hague, would underwrite the efforts of the right to argue against such a deal. "There will be sound and fury but very little substance from the anti-federalists," one minister said. Another pointed out that a confrontation before Maastricht would diminish the influence of Mrs Thatcher and her allies next spring in the immediate run up to the general election. Mr Douglas Hurd, meanwhile, played down suggestions that recent clashes between London and Brussels signalled a breakdown in the separate discussions on political union. The foreign secretary stressed that the "centralist"

vision of Mr Jacques Delors, the European Commission president, was not shared by Britain. Nor was there any prospect at Maastricht of an agreement on the "final shape" of Europe. He told BBC radio, however, Britain still saw its interest as establishing enough common ground with other European governments to agree on another step forward for the Community. Mr Hurd said an accord could be delayed if other countries insisted at Maastricht on a federal structure for Europe, but that was not his government's aim. Mr Tebbit said Britain should have "nothing to do" with arrangements which would lead to the creation of a single currency, allowing those countries which wanted that to do so outside the Treaty of Rome. He agreed with an earlier comment by Mrs Thatcher that an economic and monetary union "would tear the heart out of our parliament". The former Conservative party chairman said he would "make plain" his opposition at Westminster, but was careful to leave open the question of whether he would actually vote against the government. The exact timing of the pre-Maastricht debate has yet to be decided, but it is likely to follow a series of bilateral meetings between Mr Major and other European leaders. On Friday he will meet Chancellor Helmut Kohl in Bonn, and Downing Street is arranging similar talks with President Francois Mitterrand of France, Mr Giulio Andreotti, the Italian prime minister, and Mr Charles Haughey, the Irish prime minister. Parties prepare to shoot it out, Page 8. Government rejects poll tax demands, Page 8

Japan's ruling party picks new leader

By Robert Thomson in Tokyo

MR KIICHI Miyazawa is to be the next prime minister of Japan following his election yesterday as leader of the ruling Liberal Democratic Party (LDP).

Mr Miyazawa, 72, who will be formally installed as party president tomorrow and as prime minister next week, is expected to have more influence over policy than Mr Toshiki Kaifu, the outgoing prime minister, who lacked the support of a major party faction. The new leader has a substantial faction of his own, and broad experience in economic and foreign policy making. After his selection was announced, Mr Miyazawa bowed in gratitude to his fellow LDP members, and then walked on to a stage, where Mr Kaifu led the room in a ceremonial shout of "banzai, banzai" to ensure the LDP's longevity.

"I want to solve the problems that most trouble the Japanese people," Mr Miyazawa said. He is aware that the dumping of the popular Mr Kaifu has stirred anger among at least a few Japanese, who are dismayed that obscure deals done in LDP backrooms have again determined the country's leadership.

Mr Miyazawa received 235 votes from the 395 LDP members of parliament and from Observer, page 16. Continued on Page 18



Kiichi Miyazawa acknowledges the applause of Liberal Democratic Party members after his election yesterday

White House bids to regain initiative on US economy

By Lionel Barber in Washington

THE US economy grew in the third quarter by at least 2.5 to 3 per cent, according to a forecast yesterday by Mr Nicholas Brady, US treasury secretary. Mr Brady's informed estimate signals the start of a White House counter-offensive on the economy, with the administration using tomorrow's third-quarter GNP figures to dampen expectations of a tax-cutting "growth package".

It is unusual for cabinet officials to reveal economic data ahead of schedule, but President George Bush has been stung by opinion polls showing a decline in his popularity and re-election prospects directly resulting from the sluggish performance of the economy.

Slow economic growth has set off a "bidding war" among Congressional Democrats and Republicans, each promoting tax cuts for the middle class, which they argue would help to jump-start the economy. Mr Tom Foley, House

speaker, joined fellow Democrats yesterday in supporting calls for higher taxes on the wealthiest Americans to pay for middle class tax cuts. The possible exchange would be a partial reduction in the capital gains tax, a policy being pushed by President Bush. Mr Brady, however, has emerged as the leading advocate of a "wait-and-see" approach and a strong opponent of endorsing tax cuts that would result in the dismantling of the accord reached with Congress last year to reduce the budget deficit. Although Mr Brady voiced his support for a capital gains tax cut, he declared his opposition to any proposals which would either raise taxes or break the budget agreement. Mr Brady said moves to disturb the budget agreement would create uncertainty in the financial markets, leading to higher interest and mortgage rates. He also quoted Mr Leon Panetta, Democrat chair-

man of the House budget committee, saying tax cuts for the middle class were good short-term politics but bad economics. Mr Brady also sharply attacked the compromise on bank reform agreed last week among House leaders. A new version, pushed by the House energy and commerce committee, would allow banks into the securities business, but would create tough "firewalls" between the two activities. Although the treasury secretary did not advocate a presidential veto of the legislation, he said it was a "step back", undermining efforts to create a more efficient and competitive banking industry. Mr Brady also raised the prospect of more tax-payers money being needed to bail out US banks. Last week, the Federal Deposit Insurance Corporation increased its forecast of the number of bank failures in 1992, tripling its expected shortfall next year to \$8.6bn.

EC attacks Yugoslav demand for surrender of Dubrovnik

By Judy Dempsey, East Europe Correspondent

THE European Community yesterday sharply criticised a Yugoslav federal army ultimatum demanding that Croatian forces defending the besieged medieval city of Dubrovnik hand over all their weapons and leave the region.

"The demands are an illegal act clearly aimed at the seizure of an indisputably Croatian city," said the EC. The statement was issued from The Hague by the Dutch Foreign Ministry, host to the EC-sponsored peace conference on Yugoslavia.

As the deadline for the surrender passed last night local Croats said they were expecting an all-out attack on the city as part of a plan by the Serb-dominated federal army and Serbia to create a greater Serbia.

There were even rumours that the army was considering annexing Dubrovnik to Montenegro, a staunch ally of Serbia. Journalists near Dubrovnik, however, thought an all-out assault was unlikely and that the federal army would sit it out for the time being.

The ultimatum, issued at the weekend by General Pavle Strugar, the federal army commander in Dubrovnik whose forces have been besieging the city for three weeks, did not say what action his troops would take if Croatian forces failed to meet the deadline.

In a tone reflecting the EC's frustration at its inability to implement a ceasefire, and the federal army's floating of any agreed ceasefire, it said: "Ceasefire arrangements have been violated by all parties. But recent JNA (the Yugoslav federal army) attacks are out of all proportion to any non-compliance by Croatia."

EC foreign ministers will today meet in Brussels to discuss the Yugoslav crisis, while Lord Carrington, the former UK foreign secretary and chairman of the peace conference on Yugoslavia, will hold talks in New York with UN officials.

More than 6,000 inhabitants of Dubrovnik have asked to be evacuated since Friday when the EC brokered a ceasefire between the federal army and Croatian forces. Meanwhile, Croatian radio yesterday reported widespread fighting continued in the cities of Vukovar, Vinkovci, and Osijek.

Background, Page 4

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CONTENTS

THE MONDAY INTERVIEW

"We found a lot of councils playing Robin Hood in reverse," says Howard Davis, the controller of Britain's Audit Commission, recognised for keeping local government spending in check. Page 34

International	2-4	Building Contracts	12
Companies	21	Businessman's Diary	13
Britain	8	Crossword	34
Companies	20	Currencies	29
Arts-Reviews	15	Editorial Comment	18
World Guide	15	International Bonds	23

Middle East

Washington is not divulging its game-plan for the Madrid negotiations. French politics: The outlook for President Mitterrand's embattled government looks grim. - 18 Management: Unilever's search for a more coherent European strategy. - 14 UK construction: Costain faces a difficult climb back up the ladder. - 19 Boardroom practice: Defining the role of the non-executive director. - 17 Pensions: The European Court's ruling on pensions could cost UK employers £50bn. - 16 Retail Europe begins to be sold on cross-border retailing. - 19

Financial Diary	19	Oil	16
Int'l Capital Markets	22-23	UK Gifts	22
Loans	17	US Money and Credit	22
Management	18	Unit Trusts	25-26
Monday Page	34	Weather	18
Money Markets	22		

FT SURVEYS THIS WEEK

Germany: One year on, the high hopes have flagged. (See separate section)

TODAY:	Germany: The strains of unification begin to show. Black Country: Maintaining the momentum of regeneration.
TOMORROW:	Italian Industry: Change is in the air. Korean Financial Markets: Easing the burden of regulation.
WEDNESDAY:	Hungary: A new democracy in the making. Suffolk: A quiet backwater transformed.
FRIDAY:	Ireland: End of a promise-filled era.

INTERNATIONAL NEWS

Yeltsin outlines reforms today

By John Lloyd in Moscow

MR Boris Yeltsin, the Russian president, will today announce a harsh package of economic reforms - including price rises, cuts in the state budget and efforts to end monopolies - as his advisers call for a "Russia first" economic policy which would abandon attempts to co-ordinate reforms across the 12 states of the Soviet Union.

Mr Yeltsin will speak to an extraordinary session of the Russian parliament as senior officials from the Group of Seven advanced industrial countries meet leaders of the Soviet republics to determine whether or not they can co-ordinate assistance to the Soviet Union through the remaining - but fast fading - central institutions.

Mr Grigory Yavlinsky, economic overlord of the Union authorities, said G7 officials had come "to see for themselves what is happening here, to feel how serious our intentions are and to ascertain what kind of support we need."

"I hope this will be a very direct and honest dialogue, otherwise it will be pointless," he said.

However, pressure from within Russia is growing to cut economic ties with other republics, which are seen as impoverishing a Russia whose energy and other resources are sold to the other republics at hugely subsidised prices.

Mr Egor Gaidar, a leading radical economist and the man tipped to head economic policy in the next Russian cabinet, said on

Saturday that "if the Russian government does not take responsibility and initiative for its own reform, then the rapid fall in production will continue."

Mr Gaidar said that the price liberalisation expected to be announced by Mr Yeltsin would send prices up by 100 per cent in the first month. But he supported the need for free prices.

He also criticised the law on wage indexation, passed by the Russian parliament last Thursday, which links the incomes of pensioners and the low-paid to rises in the prices of commodities and other essential products and services.

Mr Gaidar said it would bring about hyperinflation and delay economic stabilisation for two years.

Sharp cut in Soviet defence orders

By John Lloyd

THE Soviet military industrial complex, the country's largest and most technically advanced sector, will receive virtually no orders from the military next year.

Dr Andrei Kokoshin, deputy head of the USA-Canada Institute and an expert on military conversion, said in an interview that the military had to use all of its budget to feed, clothe and house their men.

The economic crisis is forcing desperate measures on one-state institutions, which point to a jump in the still-low level of unemployment.

Recent defence orders had been "substantially cut" and more than 1m skilled workers in the sector were expected to be made redundant before the year-end, Dr Kokoshin said.

A delegation of US industrialists, led by Mr Donald Atwood, the US deputy defence secretary, will be in Moscow this week for talks with the Soviet military on the possibility of collaboration on conversion. US and other investors have studied conversion plans prepared by Soviet plants, but so far without any concrete projects being agreed.

"We need several hundred million dollars to be committed to this sector to help the best enterprises to survive," said Dr Kokoshin. "But political and government support from abroad is badly lacking."

The Soviet defence industry is estimated to account for as much as 20 per cent of total industrial production, though much of that is for civilian use.

The theme of military co-operation with the west was underscored by Colonel Vitaly Shlykov, deputy head of the Russian parliamentary defence committee. Col Shlykov called for co-operation between the US and the USSR on the creation of a global anti-missile defence system.

Unemployment in the Soviet Union is forecast to rise as high as 20m-25m next year if economic agreements are not rapidly made between enterprises and republics. Mr Alexander Troshin, the acting head of the Soviet Economics Ministry, said GNP could fall between 5-14 per cent in 1992.

IG Metall warns of tough wages round

By Christopher Parkes in Bonn

GERMAN steelworkers warned at the weekend of a "rough and tough" wages round this winter as Mr Jürgen Möllemann, economics minister, said settlements of more than 5 per cent could not be justified.

Mr Lorenz Bruchhaus, leading negotiator for 135,000 IG Metall union members employed in the iron and steel industry of North Rhine-Westphalia, Lower Saxony and Bremen, said his claim for a 10.5 per cent increase plus a rise of 1.1 per cent in the basic wage was legitimate.

The cost of living was expected to rise 4.5 per cent next year, and productivity in the iron and steel industry by 2.5 per cent. His members also had to reckon with the burden of increasing direct and indirect taxation.

He claimed that employers had benefited from a "profits explosion" - although many forecasts suggest further downward pressure on sales and prices next year. The steel employers' negotiators said the claim was "light years away" from what the industry could afford.

Mr Möllemann, who said German pay had increased at more than double the rate of company profits in the past 10 years, said at the weekend he wanted to see "a four in front of the decimal point" in this winter's settlements.

His intervention earned him warnings from unions, and even from coalition party politicians, that he would be well advised to keep out of the negotiations.

IG Metall presented its claim to employers last week, as OTV public service union members voted to apply for a two-figure increase, and banking employees hid for 12.5 per cent.

Government, employers, the Bundesbank and leading economic institutes have all warned against the danger of a wage and prices spiral as economic growth in the west of the country slows down and the costs of financing the unification of the country increase.

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Brittan's powers extended

By David Buchan in Brussels

SIR Leon Brittan, the EC competition commissioner, has had extended until the end of this year his power to handle Brussels' investigations of corporate mergers up to the point at which they come before the full EC executive for final decision.

The decision, largely taken by Mr Jacques Delors, the Commission president, means that, for the time being at least, Mr Brittan's powers, which have been extended for a second year, will be more closely involved in merger vetting, in the wake of Brussels' controversial blocking of a Franco-Italian bid for de Havilland, the Canadian aircraft company.

EC urged to end delay on fishing conservation

European Community governments will be asked to end more than a year of delay on measures needed urgently to conserve the stocks of fish in Community waters, when ministers responsible for fishing meet in Luxembourg today, writes David Buchan in Brussels.

The European Commission is seeking action on a variety of measures to end over-fishing practices which catch too many young fish. These include increasing the size, and changing the shape, of mesh in trawler nets.

Italian bank governor hits at budget failings

Mr Carlo Azeglio Ciampi, governor of the Bank of Italy, made an outspoken attack over the weekend on the inadequacy of the 1992 budget, writes Robert Graham in Rome.

He also warned that Italy risked "missing the train" if urgent action was not taken to reduce the country's public sector deficit and bring inflation of over 6 per cent into line with that of other EC member states.

Montenegro looks for revenge

Laura Silber on how Serbia's ally sees federal attacks on Croatia

SHOTS ring out, shattering the Sunday silence in Herceg Novi on Montenegro's border with Croatia. The beautiful little town lies in a snug bay on the Adriatic, which even in the middle of autumn is warm and crystal blue.

The shots celebrate a marriage. None of the guests flinches at the sound. Montenegro is proud of their warrior tradition.

Federal army reservists - mostly Montenegrins - pack the town's cafes, drinking beer and loza, Montenegro's home-made brandy. A beautiful woman strides by in fatigues, carrying a pistol.

The men eagerly await the opportunity to go the front, which begins just a few miles away at the Croatian frontier, where the army has razed most houses and other buildings to the ground.

The forested hillsides have been burned out. The few trees which remain will soon fall, their trunks ringed by fire.

"When the army took the airport, which was only defended by four Croats, the reservists threw their biggest ever party when they broke into the duty-free shop. The cognac and whisky flowed," said a Belgrade journalist.

The army has spared Cavtat, a town just south of Dubrovnik, Croatia's exquisite resort. Cavtat still stands, in stark contrast to the rubble of all other villages leading to Dubrovnik.

"The army uses Cavtat as a



A Serbian villager loads a mortar during a battle near the town of Vinkovci, in east Croatia

showcase to prove they are not the savages they really are," said the journalist, who refused to give his name.

Back across the border in Herceg Novi, fear has ebbed. The lack of sympathy for their countrymen up the coastline in Croatia is striking. They appear not to care about the

mass destruction and deaths in Croatia, in the belief Montenegro and Serbia are fighting a defensive war.

"We were terrified a few weeks ago, but now the army has stopped the Croats," said a middle-aged woman. The inhabitants of Herceg Novi believe the recent army

assault around Dubrovnik has saved them. They are convinced that the Croat government is fascist.

They tell of the horrors of the second world war, when the Ustashe, pro-Nazi Croats, killed hundreds of thousands of Serbs, Jews and gypsies. It is as if 50 years have not passed, and they are eager to avenge those deaths.

"The west does not understand. Cities can be rebuilt but people cannot be brought back to life," says one angry man.

In Cavtat the army is regarded by the local Croat population as a hostile, plundering force. Reservists have looted televisions, cars and clothing. But in Herceg Novi, the people rejoice in the army presence, cheering and shooting what convoys drive through the town.

The federal army has repeatedly accused the west of succumbing to Croat propaganda. Army chiefs deny that their forces have attacked Croatia, but are simply responding to provocations.

The army and the governments of Serbia and Montenegro claim this is not a war of territorial expansion.

They justify their attacks by saying they must protect the small Serb-minority in Dalmatia.

However, at the outskirts of Dubrovnik, known as the Pearl of the Adriatic, someone has added the epithet "Serbian" in front of Dubrovnik on the town sign - a mark of Greater Serbian consciousness.

French jobless figures rise by 10.9% in year

By Ian Davidson in Paris

FRENCH unemployment, an increasing source of anxiety to the socialist government ahead of next spring's regional elections, surged in September to a record 2.7m, the Labour Ministry reported.

The figure represents a 1 per cent increase on the August level and is 10.9 per cent - or 240,000 - higher than a year ago. The announcement reinforces an economic assessment by the National Statistical Institute (Insee), which reports that second-quarter indications of a pick-up in economic growth have fizzled out. The institute said the unemployment rate, now 9.6 per cent, could reach 10 per cent by the end of the year.

The government has earmarked FF7.5bn (£750m) in extra job-creation funds in the hope of stemming unemployment over the next two years. The money will be used to pay social security costs of

employing young people without qualifications and to provide tax relief for those who employ home helps.

At the same time, however, the government is set to take a harder look at the published jobless unemployment statistics, on the grounds that the figures are undoubtedly inflated by a significant number who do not qualify as unemployed under International Labour Office criteria.

According to an internal government report, some 400,000 would be disqualified under the ILO criteria, of which about 294,000 are not genuinely looking for work - either because they have given up the attempt for reasons of age, or because they are handicapped for health or family reasons.

Overall economic growth in France this year is likely to be no more than 1.5 per cent, the Insee report says.

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Europe starts to be sold on cross-border retailing

John Thornhill looks at pressures that are forcing some companies to expand into foreign markets

THE EUROPEAN MARKET

IKEA is a Swedish retailer which sells Polish furniture in Italy. The British Laura Ashley group sources fabrics in Hungary and sells frocks in the US with backing from its Japanese minority shareholder.

The internationalisation of retailing is a reality, although it has widely been assumed that such examples are the exception rather than the rule.

However, a new report* on the subject by Corporate Intelligence Group, a retail research consultancy, shows that a surprisingly high level of cross-border retailing activity already exists in Europe and that the phenomenon is growing rapidly.

The study suggests a variety of pressures have pushed European retailers into expanding abroad, while the deregulation of markets in the run-up to 1993 has made it easier for them to do so.

"It is this congruence of the necessity or desire to operate outside the home market with the ability to do so which defines the modern, post-1980 phase of internationalisation in retailing," the report says.

In total, the report identifies more than 1,000 examples of European retailers operating outside their domestic markets, although there is an element of double-counting in this figure as a company with shops in five different countries will be treated as five separate examples.

Nevertheless, CIG says about 311 European retail companies have international operations: France accounting for 95 of them, the UK 71, and Germany 44.

Although cross-border retailing is nothing new - Woolworth, the US variety store chain, opened in the UK as long ago as 1905 - CIG suggests it is an accelerating trend.

Saturated home markets, planning restrictions, rising costs and unfavourable demographic and economic changes have led many European retailers to seek opportunities outside their domestic markets. The psychology of the single market programme has also played a significant role - as

the concept of the European Economic Area may in future years.

However, much of this cross-border retail expansion has simply been directed into adjacent markets. The Benelux countries have seen a great diffusion of retailing activity, while many French retailers have expanded into Spain and Swedish companies have spread into Norway.

Yet some adventurous spirits have looked further afield - Carrefour, the French retailing group, has recently opened its third hypermarket in Taiwan. And the horizons of Europe's retail managers have been drastically broadened because of the opportunities of eastern Europe. The relatively underdeveloped wholesaling and retailing networks in the region have thrown up huge possibilities and many German groups are investing heavily in expansion.

The US has historically been an active hunting ground for European retailers, which have accounted for the vast bulk of foreign direct investment in the US retail trade. Between 1980 and 1988 the value of total foreign investment grew from \$3.6bn to \$14.7bn (\$8.6bn) with UK retailers alone accounting for almost 60 per cent.

Marks and Spencer was one of the more high-profile European companies to enter the US market through its acquisition of Brooks Brothers and the Kings supermarket chain. But other big European retailers, such as the Dutch Ahold and Vindex companies and the German Tengelmann and Otto Versand groups, have also built up sizeable US businesses in the food retailing and mail order markets.

But in the grand scheme of things the scale of international retailing still appears limited. It is probably wrong to believe the European retailing scene will soon become homogeneous.

Although many High Streets throughout Europe boast a Benetton and a Body Shop there remains a multiplicity of differences. Only in the rapidly expanding Spanish retail market - which is largely being shaped by more than 100 foreign retailers - does the proportion of total retail sales won by non-nationals exceed 5 per cent.

And although international retailing has become more frequent, it is difficult to tell how successful it has been.

Operating retail outlets in foreign markets certainly requires great flexibility and commitment and would appear to be far easier to get wrong than right, as the sad history of many British retailers in the US market proves.

The method of market entry often proves crucial, whether it is by way of joint venture, franchising, licensing or outright acquisition.

It frequently appears better to learn about a new market gradually and build the business from small beginnings than to try to win a great chunk at one hit. In this respect it is perhaps instructive to contrast Marks and Spencer's increasingly attractive organic growth prospects in mainland Europe with its relatively unsuccessful acquisition of expansion in North America.

Cross-border retailing is clearly a difficult game to win but one that increasing numbers of companies are trying to play.

Cross-border retailing in Europe, Corporate Intelligence Research Publications, 51 Doughty Street, London, WC1N 2LS

PUBLIC NOTICES

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INTERNATIONAL NEWS

Opinion polls show reservations over demands to cede territory, despite support for Madrid talks

Israeli hardliners win the public's confidence

By Hugh Carnegie in Jerusalem

ISRAELI ministers, meeting in cabinet yesterday for the last time before Wednesday's Middle East peace conference, reiterated their determination not to concede the key Arab demand of "land for peace", confident that their tough stance is in step with public sentiment.

Tens of thousands of Israelis gathered in Tel Aviv on Saturday night to voice support for the conference, in one of the biggest demonstrations organised by peace groups who normally oppose Prime Minister Yitzhak Shamir and his Likud party.

The groups advocated ceding the occupied territories in exchange for peace, but an ambiguous note crept in. Mr A.B. Yehoshua, the author and veteran dove, said: "Today I am sending you a warm greeting, Mr Shamir. Go in peace and bring peace... in your way, with your tricks, the authority is all yours. But bring peace now."

He did not mean to endorse Mr Shamir's stubborn refusal to cede territory. But his words echoed a mood among many Israelis, including Likud opponents, that Israel is best represented by a hardliner like Mr Shamir when it comes to negotiations in which the country is likely to come under great



About 50,000 Israelis gathered outside Tel Aviv's city hall at the weekend in support of regional peace

pressure for concessions.

Opinion polls have shown an overwhelming majority in favour of the Madrid conference. But they also show scepticism about the outcome and reservations over meeting the

demand to give up territory. Another demonstration, this time by government supporters, has been called for today under the slogan: "No one sells his mother."

Polls are not available on the Palestinian side, but grudging support for the Palestine Liberation Organisation's decision to attend the conference, despite Israel's tough pre-conditions, appears to be the main sentiment.

After 24 years of occupation, a sudden resignation that the dream of a Palestinian state is simply not attainable in the short term has set in, replaced by the realisation that the only route is to take the limited

autonomy that is on offer and hope to build on it.

"We can't jump to the top of the ladder," said a young Jerusalem travel agent. "We have to start climbing from the bottom rungs."

So far the peace talks have not generated a momentum in Israeli public opinion like the wave of enthusiasm unleashed by the late President Anwar Sadat's visit to Jerusalem in 1977, which carried through to the Israeli-Egyptian peace accords of 1979.

But the sight of US President George Bush and his Soviet counterpart Mikhail Gorbachev bringing the Arabs to the negotiating table and raising the prospect of real peace might entice a dubious Israeli public into a more decisively conciliatory mood, challenging Mr Shamir's intransigence.

Both sides fear that failure would allow extremists to seek to fill the vacuum. Evidence of such extremism is easily found.

"I don't want peace, I want war," said Sami, a 21-year-old from the village of Silwan. "My friends and I are with the Islamic movement. We are against the PLO. The peace conference is cooked against us. I can smell it."

Jordan calls on ex-PLO adviser

By Tony Walker

JORDAN has included Mr Walid Khalidi, the distinguished Palestinian historian, in its delegation to the Madrid peace conference, in an apparent attempt to circumvent Israel's refusal to deal with Palestinians from the diaspora or Jerusalem.

Mr Khalidi, who was born in Jerusalem, is a professor in the US and for a time in the 1970s was a close adviser to Mr Yasir Arafat, chairman of the Palestine Liberation Organisation.

Israel is certain to take a dim view of Prof Khalidi's presence in the joint Jordanian-Palestinian delegation to the conference, as he is both a prominent Palestinian from the diaspora and a former Jerusalem resident.

Israel insists it will negotiate only with Palestinians from the West Bank and Gaza Strip. It will not sit down with Palestinian representatives from Jerusalem, nor those associated with the PLO.

Mr James Baker, US secretary of state, voiced concern at the weekend over statements by Palestinian representatives in the joint delegation identifying themselves closely with the PLO. He called on parties to the conference to "act and speak responsibly".

The announcement of Mr Khalidi's presence in the joint delegation coincided with a continuing flurry of Arab consultations in preparation for Wednesday's opening session of the conference.

In Cairo, Palestinian representatives of the joint delegation and an advisory group being sent to Madrid met President Hosni Mubarak.

Mrs Hanan Ashrawi, a Palestinian spokeswoman, said after the meeting that Egypt's assistance in negotiations would be helpful in view of its experience in dealing with Israel. Egypt is the only Arab country to have made peace with the Jewish state.

In Amman, a senior PLO official warned that if Israel did not halt Jewish settlements in the West Bank and Gaza Strip, occupied in the 1967 war, Palestinians might walk out of the Madrid talks.

Three Palestinians convicted of security offences were barred from leaving Israel yesterday to attend the peace talks as advisers, Renter reports from Jerusalem.

Israel has allowed other Palestinians convicted of security offences to go to Madrid, but security officials said the three prevented from leaving had been convicted of more serious crimes.

US game-plan for peace talks under wraps

By Lionel Barber, US Editor, in Washington

THE Middle East peace conference owes its existence principally to the US. Since the end of the Gulf war last March Mr James Baker, US secretary of state, has flattered, bullied and finally finagled the Israelis and Arabs into direct negotiations on a dynamic emerging in bilateral talks between Israel and its Arab neighbours. He said the US would do whatever it could to make sure the parties took steps to reach a comprehensive settlement.

Including a reluctant Syria, would be a useful means of reassuring Israel that peace talks are not merely designed to force the Jewish state to cede the territory seized during the 1967 Arab-Israeli war.

Mr Baker has sought, so far unsuccessfully, to build bridges between stages two and three of the talks, using "confidence-building" measures as an incentive to encourage the parties to offer concessions in their bilateral negotiations.

Earlier this year he suggested the Arab states consider lifting the economic boycott against Israel in return for the Shamir government halting settlements in the occupied territories of the West Bank and Gaza.

Mr Shamir quickly rejected the idea on the grounds that an Arab wrong was being exchanged for an historic Jewish right to settle the territories. The cost was a humiliating political defeat, after the Israeli leader pressed his request in Washington for \$10bn (250m) of housing loan guarantees to settle Soviet Jewish émigrés. President Bush argued that approval would jeopardise the peace conference, took his case for a delay to Congress and the US public, and won.

The US remains committed to Israel's security but is no longer its unquestioning patron. The US-led victory over Iraq - coupled with the end of the Cold War and the decline of Soviet power - has left Mr Bush convinced that an historic opportunity for peace exists in the Middle East. The risk is that the Arab states may simply wait for the administration to keep applying the pressure on Israel without making any reciprocal concessions.

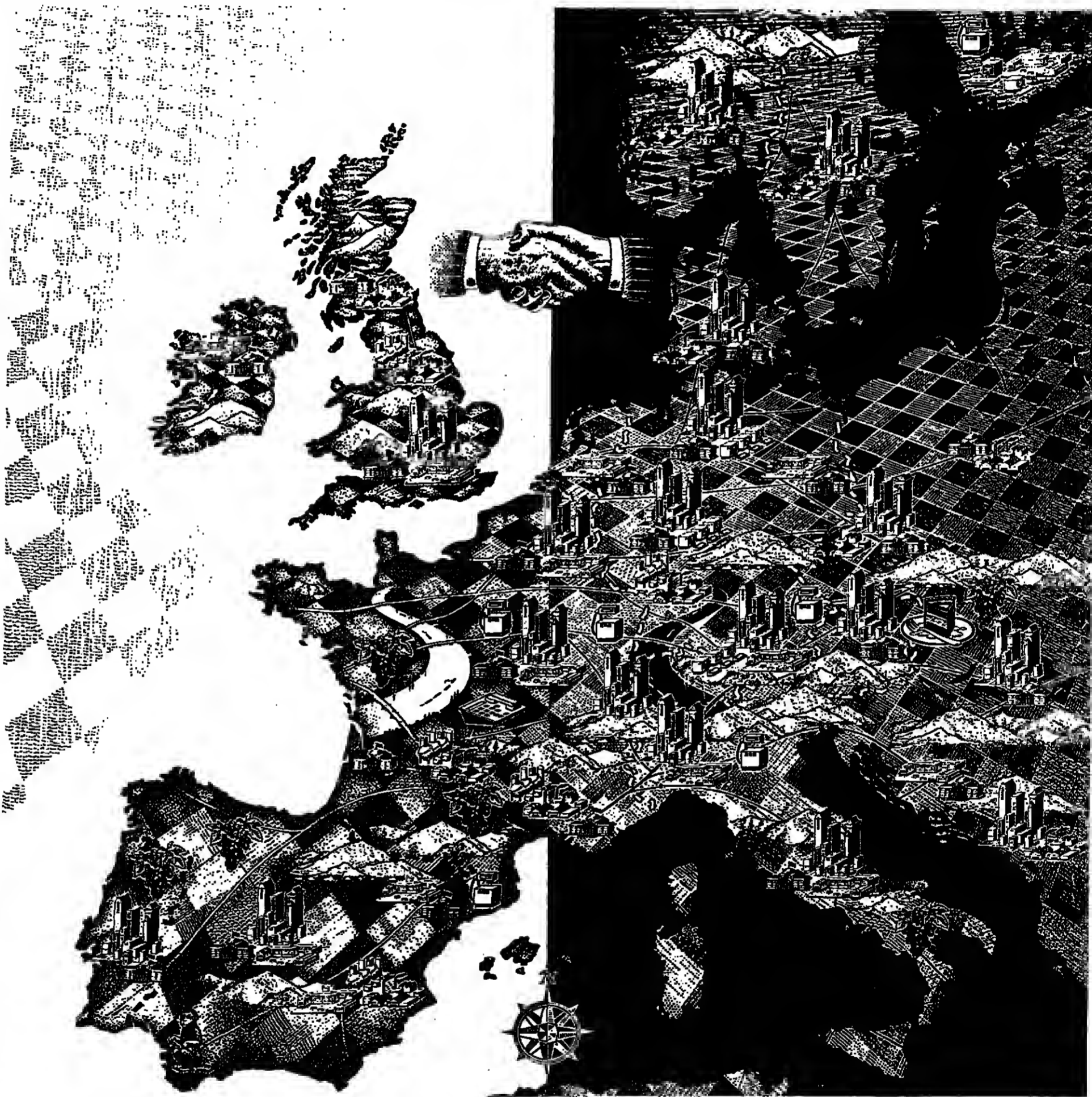
Mr Martin Indyk, executive director of the Washington Institute for Near East Policy, sums up Washington's dilemma as how to deal simultaneously with Arab expectations and Israel's trepidation. The trick, he says, is whether the US can discover "the bottom line" in negotiations between the main parties, particularly Israel and Syria, which would enable a future deal to be cut.

The most tantalising fact to emerge to date is that Israel has insisted the US remain out of sight in the initial phase of the bilateral talks. This conflict with Mr Shamir's often stated claim that there is no better mediator than the US; but it reveals Israel's fear that, even with a presidential election year approaching, the Bush administration may make one of those special US offers, which no one can refuse.

The format of the talks represents a new order of priorities for the US. In the first 18 months of the administration, Mr Baker emphasised the primacy of the Palestinian issue, attributing near magical properties to an Israeli-Palestinian dialogue as a catalyst for regional peace.

In effect the US has accepted Mr Shamir's argument that a fresh effort to resolve the Palestinian problem must be linked to progress in the talks between Israel and the Arab states.

The multilateral negotiations on regional issues underline the point: Arab participation,



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INTERNATIONAL NEWS

Inquiry into BCCI 'tip-off' to drug dealers

By Alan Friedman in New York



A TIP-OFF from inside the US government may have allowed international drug dealers to withdraw millions of dollars from the Bank of Credit and Commerce International (BCCI) days before the arrest of bank employees on money laundering charges, US investigators suspect.

Congressional investigators are trying to determine whether the leak - which led to significant withdrawals by members of Colombia's Medellín cocaine cartel before the October 1988 arrests - came from BCCI's contacts in US political or intelligence circles.

The judiciary committee of the House of Representatives is understood to be questioning past and present US officials as part of its investigation.

The 1988 Florida arrests, involving BCCI employees and drug dealers, followed a "tipping" operation by US Customs agents. They resulted in the conviction of five low-level BCCI employees and led the bank to agree to pay a \$15m (£3.7m) fine in an out-of-court settlement in January 1990.

The decision by the US Department of Justice to accept such a small fine and to allow BCCI to continue operating in the US has been sharply criticised by some US prosecutors and by congressional investigators, who term the settlement a "slap on the wrist" that failed to stem the bank's illegal activities.

In recent months the Justice Department has defended its 1990 settlement, but has come under fire for failing to act on a number of leads that emerged as a result of the Customs operation, code-named C-Chase.

The inquiry into whether US officials may have leaked highly sensitive information about the BCCI investigation

comes at a time of rising concern about why the bank was not closed before 1991, given that widespread indications of criminal behaviour were turned up by the Central Intelligence Agency (CIA) and other US agencies.

Mr Richard Kerr, acting director of the CIA, on Friday told Congress that the CIA in 1985 failed to tell the Federal Reserve it had determined that BCCI had secretly owned First American Bankshares of Washington since 1981.

Mr Kerr defended the failure as "an honest mistake" and said the CIA was reviewing its distribution of intelligence reports. The CIA, Mr Kerr said, had filed several hundred reports since 1983 on BCCI drug trafficking, money laundering and arms dealing. He said the CIA also had evidence of BCCI money laundering of drug proceeds from Colombia.

Asked why the CIA did not inform the Federal Reserve of its 1985 findings, Mr Kerr said: "I'm not sure if it was a conscious decision not to inform the Federal Reserve."

Mr Jonathan Winer, an aide to Senator John Kerry, the Massachusetts Democrat who last week chaired four days of BCCI hearings, said the senator's subcommittee was investigating the possible US government leak to drug dealers.

President George Bush has ordered an official inquiry into a \$600,000 contract accepted by former White House aide Mr Ed Rogers to represent a central figure in the BCCI affair.

Mr Rogers, former deputy to Mr John Sununu, the White House chief of staff, resigned from his post in August. Three weeks later he travelled to Saudi Arabia to sign a contract as a lawyer to Sheikh Kamal Adham, the ex-head of Saudi intelligence and a key BCCI shareholder. Sheikh Adham is being investigated by a US federal grand jury for his alleged role in the BCCI affair.

Former Klansman repays bad words with a smile

George Graham on David Duke, who wants to be Louisiana governor and sterilise welfare recipients

MR David Duke, candidate for the governorship of Louisiana, was expecting trouble. "If someone says a bad word to you, repay them with a smile," he warned his supporters as he prepared to lead them down the main street of Crowley at the weekend's Rice Festival parade.

Crowley, in the heart of the watery Cajun country of south-western Louisiana, is the home town of Mr Edwin Edwards, the wheeler-dealer Democrat who held the governor's office for three terms before being voted out in 1987 under a cloud of corruption allegations and who is Mr Duke's opponent in next month's election.

The parade passed off peacefully. But this traditional Edwards country has now split down the middle as Mr Duke - despite or because of his recent past as a leader of the white supremacist Ku Klux Klan - capitalises on the resentment and protest

that brought him 485,000 votes in a first round of voting last Saturday to put him into the two-candidate run-off on November 18.

"I voted for Edwards last time he was governor. He's a very talented fellow. But we need a change," said Mr Mark Higdon, a marine coatings salesman from nearby Lafayette.

Mr Duke's message to these disgruntled voters is simple: their taxes are being wasted on welfare payments to people who are too lazy to work. "We're not against anybody if people need help, but a person that doesn't want to help himself, that's what we're upset about - people that have children just for a welfare cheque," Mr Higdon said. "It's simple issues like that, and no other politician will even touch them."

"Getting people off welfare and putting them to work is what counts," said Mrs Cindy Melvin, from the town of Sulphur, who came to the Rice Festival parade to see her candidate.

"He's really better looking in person than on the TV," she added. The most distressed people in Louisiana are the supporters of Mr Buddy Roemer, the incumbent Republican governor, a reformer whose third place in last week's vote eliminates him from the run-off.

Many of Governor Roemer's supporters are angry with him for running a lacklustre and defeatist campaign, but they are even angrier at being left with an impossible choice between Mr Edwards and Mr Duke - who runs as a Republican, though he is disowned by the party.

"If you had asked me till last Saturday if I would ever vote for Edwin Edwards, I would have said never, never," said Mr Quentin Dastugue, a Republican state representative for New Orleans who has spent

most of his political career fighting against the high-spending, ethically questionable government of Mr Edwards. "Now I am having to think again."

Mr Duke's racist past deeply worries many mainstream Republicans, who note that his message still carries scarcely veiled racial undertones, and that some of his policy prescriptions, such as sterilisation for welfare recipients, bear strong reminders of Nazi policies.

But they fear that an Edwards governorship could merely fan the flames of the resentment that is the foundation of the Duke vote.

"You have a very angry, disgruntled, middle-class white community who see their schools don't get any better, their potholes don't get fixed and their taxes keep going up. If Duke doesn't win this race, and Edwin Edwards wins, Edwards represents everything the white middle class is

angry about so it will just get worse," says Mr Dastugue.

Mr Duke's supporters are not in the least put off by his Ku Klux Klan past, and although most blacks in the state are convinced that he has not changed his spots, he has even attracted a handful of black voters.

"You never know what nobody has in their mind and heart till you give them a chance. I think he's a pretty cool guy," said Ms Mercedes Grace from the town of Rayne.

The efforts of President George Bush and the national Republican leadership to disassociate themselves from Mr Duke may only strengthen his support. "If they can't support the man, just back off and shut up," said Mr Eugene Thornton, a retired air traffic controller from the New Orleans suburb of Metairie.

In effect, what they are calling us is stupid rednecks, and we don't want their advice."



A homeless man sleeps by a Bogotá billboard covered with election posters, on the eve of Colombia's congressional elections yesterday. Some 16m people were eligible to vote for a new Senate and House of Representatives.

Vietnamese tread carefully to barter with China

By Stefan Wagstyl in Dong Dang, Vietnam-China border

TRADERS are picking their way through minefields to do business on the heavily guarded and mountainous frontier between China and Vietnam.

Since a border war 12 years ago, entrepreneurs have shepherded gangs of porters on steep trails linking the Vietnamese border town of Dong Dang, in Langson province, with Chinese villages in Guangxi on the opposite side.

Every few days a bearer, carrying a load of 100kg or more, slips and breaks an arm or a leg. Every few months one steps on a mine and dies. A border guard said yesterday: "Two or three days ago someone got killed. It happens here quite a lot."

But there is no shortage of traders or porters willing to do the 2km climb twice or even three times a day. A tribute, perhaps, to the capitalist spirit on the frontier between the world's two largest surviving communist countries.

Trade has mushroomed since the authorities on both sides sanctioned these informal contacts two years ago in order to control smuggling. With relations between Beijing and Hanoi improving, the road will probably be opened in the next few months. But for the moment, the traders go by foot.

Cash rarely changes hands. Trade is done in barter, in gold, and sometimes in opium. The Vietnamese bring mainly food, including fish, fruit, and live chickens and ducks. They buy mostly Chinese-made fabrics, pots and pans, and other household goods.

The Vietnamese traders do well by dragging across stripped-down Japanese-made Honda motorcycles, which are resold by the seller on the opposite side. Spare parts



S Africa conference urged

By Michael Holman in Johannesburg

SOUTH AFRICA'S "patriotic front" anti-apartheid coalition ended its inaugural congress yesterday with a call for the convening of an all-party conference to prepare the way for a constituent assembly and an interim government.

This assembly, elected on the basis of adult suffrage and proportional representation, would draw up South Africa's post-apartheid constitution.

This marks the creation of a powerful alliance between the African National Congress (ANC) and the United Democratic Front (UDF), the main con-

veners of the three-day conference in Durban to unite political parties, trade unions, and other organisations.

The organisers said yesterday: "A democratic order can only be ushered in through a mechanism in which our entire nation elects a constituent assembly that drafts and adopts a democratic constitution... In order to ensure that the elections are free and fair, we insist on the establishment of an interim government... that shall at the very least control the security forces and related matters, the electoral process,

state media, and defined areas of budget and finance."

The alliance was made possible by the PAC's move away from its previous stance, amounting to a call for an immediate handover of power by President F. W. de Klerk.

There remains, however, a wide gap between the Patriotic Front demands and the government's position.

The Durban conference failed to heal divisions in black politics, with Chief Mangosuthu Buthe's Inkatha party not among the 60-odd organisations taking part.

Indian temple plan set back

By K. K. Sharma in New Delhi

THE Vishwa Hindu Parishad, the religious organisation which has vowed to build a temple at the site of a mosque at Ayodhya in northern India, has been thrown into confusion.

A court has ruled that no "permanent structure" can be erected on the land being acquired near the mosque by the Uttar Pradesh government.

The ruling was on a petition by three Muslims against the plans of the Uttar Pradesh government to acquire the land. This administration is controlled by the Bharatiya

Janata party, the Hindu revivalist party that supports the VHP.

The VHP in Lucknow, capital of Uttar Pradesh, said that plans for building the temple were being temporarily abandoned.

However, its central leadership in New Delhi said yesterday that the ruling had no effect on its long-term plan. The temple issue led to violence last year and tension has mounted between Hindus and Muslims recently after the Uttar Pradesh government revealed plans to acquire the

land. Mr P. V. Narasimha Rao, the prime minister, who has been silent on the plans, said yesterday that the Uttar Pradesh government must obey the court orders.

The court decision has helped the ruling Congress party on a difficult issue, before important parliamentary elections are held next month.

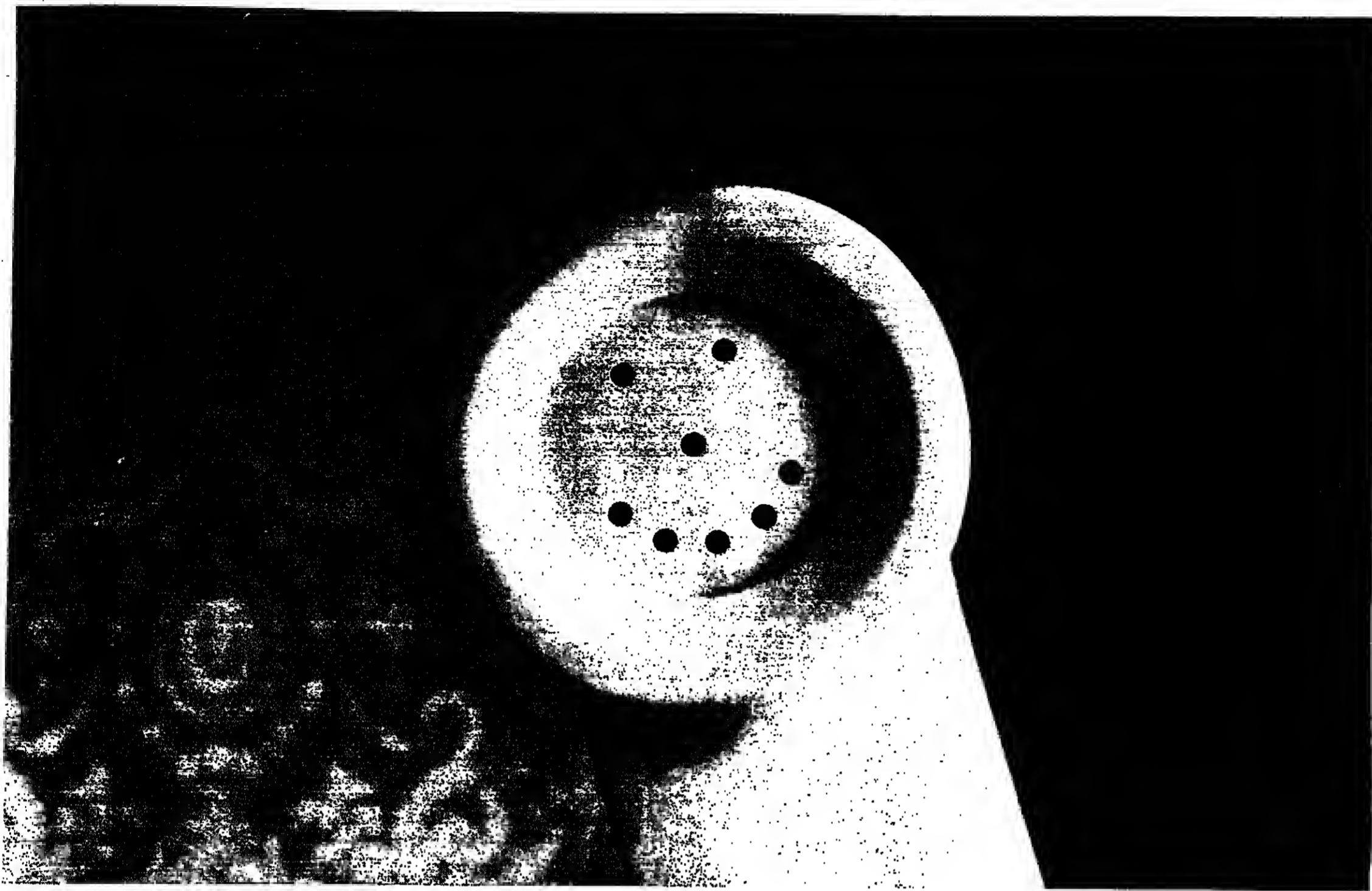
It has taken the position that the temple issue should be settled by negotiations between Hindus and Muslims and that the court's ruling must be respected.

INTERNATIONAL ECONOMIC INDICATORS: MONEY AND FINANCE

This table shows growth rates for the most widely followed measures of narrow and broad money, a representative short- and long-term interest rate series and an average equity market yield. All figures are percentages.

UNITED STATES										JAPAN					GERMANY					FRANCE					ITALY					UNITED KINGDOM						
	Narrow Money (%)	Broad Money (%)	Short Interest Rate (%)	Long Interest Rate (%)	Equity Market Yield (%)		Narrow Money (%)	Broad Money (%)	Short Interest Rate (%)	Long Interest Rate (%)	Equity Market Yield (%)		Narrow Money (%)	Broad Money (%)	Short Interest Rate (%)	Long Interest Rate (%)	Equity Market Yield (%)		Narrow Money (%)	Broad Money (%)	Short Interest Rate (%)	Long Interest Rate (%)	Equity Market Yield (%)		Narrow Money (%)	Broad Money (%)	Short Interest Rate (%)	Long Interest Rate (%)	Equity Market Yield (%)		Narrow Money (%)	Broad Money (%)	Short Interest Rate (%)	Long Interest Rate (%)	Equity Market Yield (%)	
1984	7.0	7.9	10.22	12.43	n.a.		2.8	7.8	8.45	8.80	n.a.		3.3	3.8	5.59	7.96	n.a.		8.7	11.0	11.77	13.33	n.a.		12.5	12.4	18.11	15.80	n.a.		6.5	12.9	10.03	11.33	n.a.	1984
1985	8.2	8.1	10.00	10.82	n.a.		5.0	8.4	8.82	8.34	n.a.		4.4	5.1	5.45	7.09	n.a.		8.2	7.4	10.03	11.74	n.a.		19.7	14.0	14.34	13.71	n.a.		4.7	13.2	12.32	11.03	n.a.	1985
1986	12.3	6.9	8.49	7.98	3.43		9.9	9.7	5.12	4.94	0.84		6.8	5.9	4.63	6.18	1.79		6.8	6.8	7.79	8.74	2.65		10.4	8.0	18.25	11.47	1.91		4.0	15.3	11.02	9.97	4.35	1986
1987	11.8	6.5	6.82	8.38	3.12		10.5	10.4	4.15	4.21	0.55		6.0	7.3	4.03	6.35	2.21		4.1	9.8	8.29	9.58	2.75		10.5	11.9	11.32	10.98	1.94		4.7	14.6	8.77	9.52	3.60	1987
1988	4.3	5.4	7.85	8.84	3.81		9.4	11.3	4.42	4.27	0.54		3.8	8.5	7.94	8.02	3.89		7.5	8.1	11.24	10.54	8.7		7.5	8.1	11.24	10.54	8.7		4.0	10.4	10.41	9.89	4.48	1988
1989	0.8	3.8	8.89	8.49	9.43		4.1	9.9	5.31	5.11	0.48		5.9	5.7	7.12	7.02	2.22		6.1	9.5	9.39	8.79	2.88		6.1	10.1	12.41	11.81	2.49		5.9	17.8	13.98	10.30	4.88	1989
1990	3.7	5.2	8.06	8.55	3.60		2.8	11.7	7.62	7.27	0.58		4.5	4.5	8.48	8.63	2.11		3.8	9.2	10.32	8.87	3.19		6.0	9.8	11.98	11.87	2.84		6.3	18.2	14.61	10.65	5.07	1990
4th qtr.1990	4.2	3.8	7.89	8.31	3.86		5.0	10.0	9.19	7.18	0.80		8.9	5.4	6.90	6.92	2.51		3.8	6.2	10.11	10.07	3.77		8.5	10.0	11.80	11.74	3.55		3.3	13.8	18.89	10.85	5.58	4th qtr.1990
1st qtr.1991	4.4	3.1	6.89	8.01	9.48		2.4	5.0	7.98	6.54	0.75		9.3	5.5	9.17	8.43	2.51		0.5	7.5	9.85	9.30	3.84		7.8	8.1	12.37	11.88	9.80		2.8	10.8	13.30	10.30	5.22	1st qtr.1991
2nd qtr.1991	5.2	4.8	8.03	8.12	8.16		3.3	3.7	7.70	8.71	0.71		5.0	5.5	9.11	8.28	2.25		-0.7	8.5	8.43	8.95	3.48		7.5	8.6	11.51	12.87	8.21		1.7	9.1	11.64	10.34	4.84	2nd qtr.1991
3rd qtr.1991	6.0	2.5	5.79	7.93	9.10		8.8	2.8	7.11		0.78				9.24		2.31				9.54		9.80				11.80		8.31		1.8	7.1	10.82		4.80	3rd qtr.1991
October 1990	4.2	4.5	7.88	8.72	9.86		4.2	11.8	8.18	7.86	0.80		5.8	5.2	8.80	8.72	2.50		0.5	7.8	10.04	10.36	3.75		8.2	10.0	10.98	11.58	3.36		3.8	14.2	14.07	11.56	5.61	1990 October
November	4.4	3.6	7.93	8.39	8.83		4.4	8.8	8.22	7.35	0.82		6.0	5.6	8.88	8.65	2.54		0.8	7.8	10.00	10.16	3.78		8.7	10.2	11.83	11.89	3.67		3.2	14.3	13.70	11.25	5.81	November
December	4.0	3.3	7.80	8.05	9.74		8.2	8.5	8.17	6.79	0.80		7.0	5.3	8.21	8.09	2.50		3.8	9.2	10.29	9.89	3.79		7.9	8.8	12.59	11.96	3.65		2.7	12.3	13.87	10.77	5.44	December
January 1991	3.8	3.0	7.11	8.07	3.79		5.1	7.4	8.07	6.99	0.80		8.6	5.2	8.35	8.74	2.67		-0.4	7.5	10.28	9.75	3.83		6.8	8.4	12.48	12.04	3.98		3.4	11.2	14.02	10.53	9.90	1991 January
February	4.4	3.1	8.50	7.84	3.37		1.0	5.5	7.89	6.39	0.74		5.6	5.4	8.08	8.25	2.45		1.5	8.0	8.79	8.11	3.82		7.5	9.2	12.45	11.90	3.64		2.8	10.8	13.32	10.12	5.18	February
March	4.8	3.3	8.40	8.10	3.25		1.2	5.1	7.91	6.88	0.70		6.8	5.7	9.09	8.28	2.38		0.5	7.6	8.43	9.04	3.38		8.8	9.7	12.17	11.64	3.48		2.6	9.8	12.49	10.25	4.82	March
April	4.3	3.2	8.08	8.03	3.17		0.3	3.8	7.75	6.89	0.70		4.5	5.6	9.18	8.20	2.30		2.2	7.5	9.34	8.88	3.49		8.8	8.8	11.74	18.07	8.36		1.6	8.8	12.02	10.17	4.74	April
May	3.5	3.6	8.28	8.07	3.20		2.2	9.6	7.72	6.84	0.71		0.8	6.8	9.24	8.56	3.44		0.8	8.8	9.24	8.56	3.44		7.8	8.7	11.38	12.82	3.24		1.6	8.5	11.58	10.32	4.85	May
June	6.8	3.4	6.10	8.27	3.17		8.8	3.7	7.63	6.73	0.72		6.1	5.4	9.06	8.35	2.18		-0.7	5.6	9.72	8.11	3.53		6.5	10.4	11.40	12.72	3.02		2.0	7.7	11.14	10.25	4.91	June
July	8.0	2.6	6.05	8.28	3.14		8.1	3.4	7.45	6.67	0.75		5.8	5.8	9.15	8.59	2.29		-1.4	5.3	9.59	8.18	3.89		7.0	8.3	11.54	13.15	3.24		2.0	7.7	11.14	10.25	4.91	July
August	6.1	2.5	5.72	7.85	3.07		7.2	2.7	7.21	6.46	0.77		4.8	5.8	8.31	8.54	2.32		2.0	5.9	9.59	8.09	3.82		7.0	8.3	11.69	18.07	3.31		1.5	7.2	10.94	10.00	4.75	August
September	5.9	2.1	5.58	7.86	3.08		7.1	2.2	6.64	6.18	0.76				8.27	8.42	2.31				8.43	8.48	3.47				11.56		3.39		2.2	6.4	10.37	9.66	4.75	September

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UK NEWS

British Gas to discuss supply monopoly with OFT

By Deborah Hargreaves

BRITISH Gas will meet officials from the Office of Fair Trading this week to discuss sweeping changes to its business. The meeting will mark the first talks between the company and competition officials since the release of the OFT's critical report on gas competition three weeks ago.

The OFT has called for the break-up of British Gas's monopoly supply to the UK's 17m household customers, as well as the sale of its

pipeline and storage system and the release of some of its gas supplies to competitors.

Sir Gordon Borrie, director-general of Fair Trading, has set a deadline of the end of the year to discuss with the company how these measures can be implemented. If no progress is made, he will refer British Gas to an investigation by the Monopolies and Mergers Commission which could impose even more

radical changes on the utility.

The talks must move extremely quickly over some very complex issues. British Gas is likely to challenge the OFT's assertion that competitors are unlikely to gain 30 per cent of the firm industrial market for gas by 1993 - a target set by the regulator. (The firm industrial market excludes gas supply to power generators.)

In addition, the company is expected

to stress the useful function it provides in the market by virtue of its monopoly power. For example, British Gas supplies back-up gas in pipelines which makes up for any temporary shortfall in competitors' supplies. If the pipeline system is moved to an entirely separate subsidiary, British Gas will not be obliged to do this at all.

"The OFT has not thought through the consequences of removing

British Gas' obligations to the system," said Mr Jonathan Stern, a gas specialist at the Royal Institute for International Affairs in London. "These are social and political dynamite. Can you imagine what happens if domestic customers go without gas for even a short amount of time because of a minor glitch in the system?"

The OFT, on the other hand, appears prepared for some disruption

in the market which will be associated with big structural change. But it believes this should be short-lived and easily overcome and will argue against any scare tactics adopted by British Gas.

If British Gas does not show a strong enough commitment to making changes in its business, Sir Gordon will be quick to refer it to the Monopolies and Mergers Commission.

Sponsors sought for more ITV shows

By Raymond Snoddy

THE Independent television network yesterday announced a big extension of its sponsorship scheme with 37 programmes to be made available for sponsorship next year.

The list includes drama such as Inspector Morse and light entertainment programmes such as Aspel and Company and This is Your Life.

It follows the relaxation in January by the Independent Television Commission of sponsorship regulations, and the success of ITV's coverage of the Rugby World Cup, sponsored by Sony.

Meanwhile, two independent analysts have expressed doubts on claims by the commission that the Treasury would receive only an extra £40m a year on average as a result of the ITV competitive tenders.

Datamonitor, a market analysis company, said that - particularly in the early years of the new franchisees - the amount would be much higher and would probably be much closer to £100m.

If the £100m figure is correct it would mean the ITV system coming under much greater financial strain in the first few years of the new licences than the BBC figures implied.

The ITC argued that the average annual payments of all the winning companies would be £350m in 1991 prices. This figure would compare with £250m a year in Exchequer levy if the existing levy on revenues on profits were to continue throughout the new franchise period.

The ITC then argued that a further £50m in deductions had to be made from the £100m difference because of factors like the Welsh Fourth Channel being funded by the Treasury in future.

Euromonitor, a research company which plans to publish a study of the UK television industry at the beginning of next month, says: "We believe this [the £40m figure] is based on very optimistic revenue and profitability figures in the calculation of what would have been paid had the existing system continued."

Rise in confidence among directors

By Charles Batchelor

CONFIDENCE about the future of the economy has risen strongly among company directors over the last two months, according to the latest bi-monthly survey of business opinion carried out by the Institute of Directors.

Of the 300 directors polled by the Institute, 53 per cent are more optimistic about economic prospects generally compared with 36 per cent in the August survey. Fifty six per cent say they see a brighter outlook for their own company compared with 48 per cent in August.

However, the survey shows that business performance has yet to show an upturn and that order books, volume of business, employment levels and profits remain flat.

Forty three per cent of businesses cite cash flow as their primary concern ahead of insufficient demand which has fallen to 31 per cent from 37 per cent. The Institute says that a shortage of cash is a classic indicator that business activity is increasing.

Thirty four per cent of directors report improved order books compared with 30 per cent but only 33 per cent say profits are improving compared with 34 per cent. Fifty five per cent forecast there will be no change in employment levels but those expecting an increase rose from 24 per cent to 31 per cent.

Director Publications, Mountbarron House, Elizabeth Street, London SW1W 9RB. £15

Poorer return on assets found in west Midlands companies

By Paul Chesswright, Midlands Correspondent

COMPANIES in the west Midlands, the region which is a barometer of the UK manufacturing sector, have been working their assets harder, but receiving a poorer return.

The companies have been digging into cash resources not only to meet high interest charges, but to keep shareholders happy with dividend payments, according to a study to be published by KPMG Peat Marwick, the accountancy firm.

The study looks at 100 quoted companies in the region against a background of fears for the future of the regional manufacturing economy.

The 100 companies made pre-tax profits in 1990-91 of £2.16bn, against £2.53bn in 1989-90. Their net interest bill climbed to £332m from £272m but their interest cover - the number of times profits cover interest payments - fell to 7.5 from 10.3.

Total gearing, at 30.5 per cent in 1990-91, was marginally higher than the previous year.

Although earnings fell and margins were being squeezed

by the inability to pass on higher costs to customers, the amount paid out in dividends rose to £688m in 1990-91 from £617m.

The food, brewing and utilities sectors - which are under-represented in the west Midlands - performed the best in 1990-91, although the only sector showing an increase in operating assets was food. The main problems have been faced in the engineering, building and general industrial sectors.

KPMG estimates that, in spite of drops in interest rates, sales and profits will continue to fall in the immediate future.

Mr Richard Archer, KPMG senior partner in Birmingham, said: "I believe that all the talk of an upturn at the moment is quite illusory. Any increase in demand was the usual seasonal upturn."

An upturn will create, in any case, its own problems for many companies, including smaller businesses outside the scope of the study.

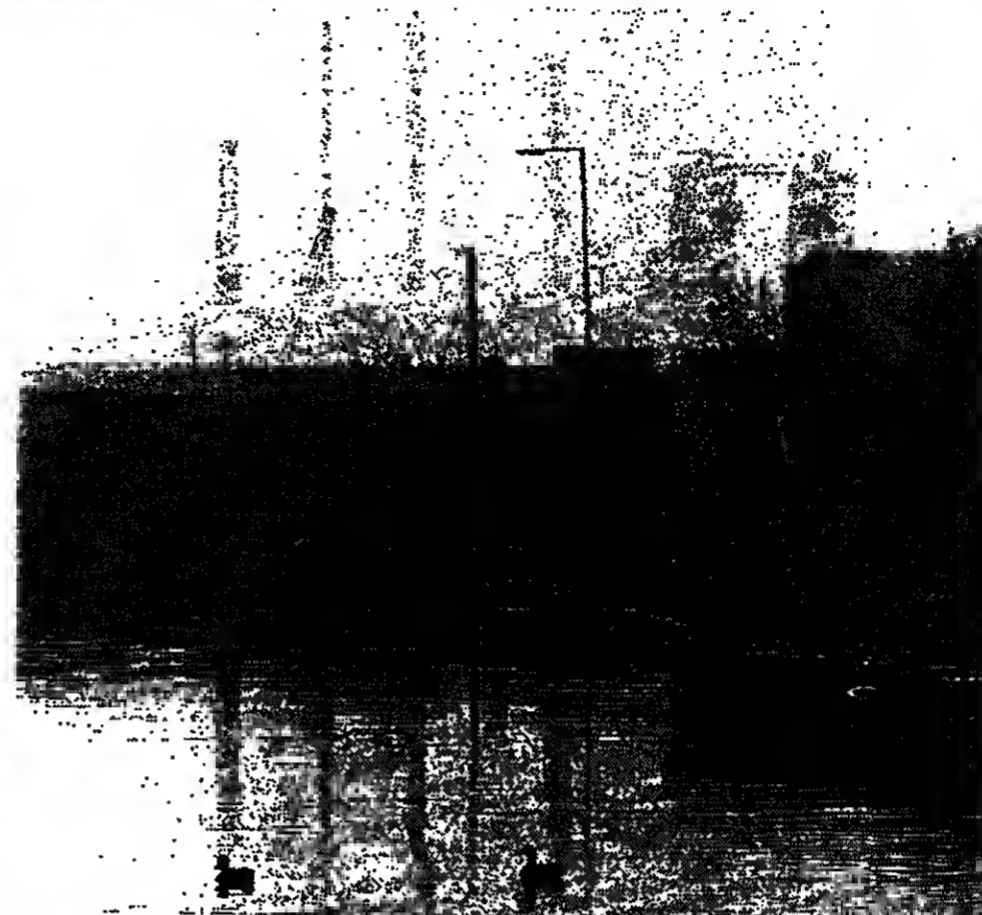
Mr Edward Roberts, chairman of the West Midlands region of the Confederation of

British Industry, said: "If margins are squeezed so tightly, if the banks are looking carefully at finance, how will companies have enough working capital. As demand picks up, your cash resources drain - that's what always causes the second phase of corporate collapses."

Arguably, the problem for the west Midlands is less to do with capacity and more that recession has eroded the region's competitive position.

Mr Chris Tillet, economist at consultants Coopers & Lybrand Deloitte, pointed out that there had been a "collapse of investment" over the last year. "Unless this adverse trend can be rectified over the next year, the region's capability to compete effectively in the European single market could be significantly damaged," he said.

For the medium term, growth prospects in the region look modest. The West Midlands Enterprise Board forecasts that regional gross domestic product will grow at 2 per cent a year for the rest of the decade.



Reflecting the gloom: the west Midlands is seen as a barometer for the manufacturing sector

Oil output is forecast to bring technical end to recession

By Rachel Johnson, Economics Staff

THE RECESSION reached its lowest point in the second quarter, but will technically terminate in the third quarter because of a rebound in North Sea oil production, according to the London Business School.

Hard evidence of recovery remains elusive and the non-oil economy is expected to remain weak until 1992,

the school says in its latest economic forecast, which has been built on the assumption that the Conservatives win the general election. The forecast says the fall in output has reached a trough and gross domestic product (GDP) in the third quarter should rise 0.5 per cent. In 1992 GDP is expected to rise 2 per cent.

Mr Geoffrey Dicks and Professor David Currie, the authors of the forecast, say that although the economy has undergone an "accelerated transition to European levels of inflation" unemployment will continue to rise, reaching 2.7m next year and peaking at 2.8m in 1993.

Retail price inflation (RPI), down

from an annual rate of 10.9 per cent at its peak last October, to 4.1 per cent in September, will fall further this month. With wage inflation holding steady at around 6 per cent, the forecast expects the RPI to average 3 per cent over the next four years.

As inflation falls, the principal constraint on lowering interest rates is

monetary policy in Germany. The forecast says: "With sterling vying with the French franc for bottom place in the ERM, the maximum that can probably be achieved is a 0.5 per cent cut in interest rates."

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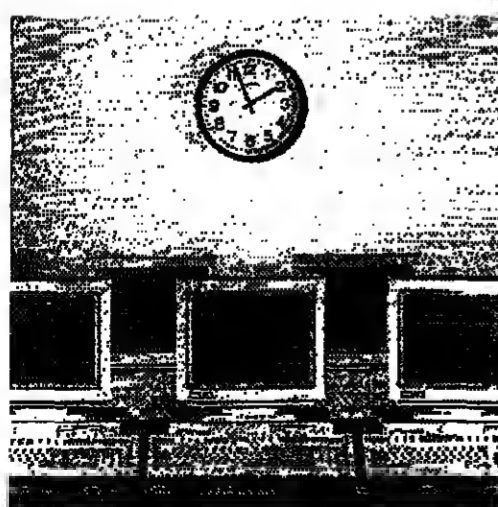
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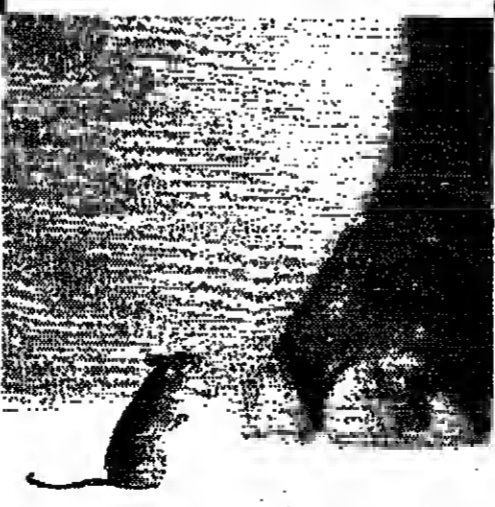
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UK NEWS

AEROSPACE

BAe, RR cut launch repayments

By Charles Leadbeater, Industrial Editor

BRITISH Aerospace and Rolls Royce have cut sharply their repayments of government launch aid amid mounting ministerial concern at the vulnerable state of the UK aerospace industry.

Detailed accounts of Department and Trade and Industry published recently show that British Aerospace's repayments last year of launch aid for its civil aircraft programmes was about 25 per cent below the level forecast, while Rolls Royce reduced its repayments by about 40 per cent.

The disclosure of the reduced payments comes as ministers at both the DTI and the Ministry of Defence are keeping a close watch on the two companies which form the core of the British aerospace industry, one of the UK's most successful manufacturing industries.

The DTI's appropriation accounts show that in the last financial year Rolls Royce repaid £17.8m in launch aid for its RB211-535 engine, about £12.3m less than it was supposed to under estimates made at the start of the year.

The company is also trying to negotiate a lower schedule of repayments for future years to reflect the extra development work on the engine which it has financed. The DTI said the short fall in payments was due to Rolls' lower than expected engine sales.

BAe repaid £34m in launch aid, £34m less than anticipated largely because industrial action and slower growth led to lower than expected sales of commercial aircraft.

The MoD is keeping a close watch on the unfolding financial and managerial crisis at BAe which is braced for an embarrassingly low take up of its £432m rights issue this afternoon.

While BAe is assured of the funds it needs to strengthen its balance sheet because the issue is fully underwritten, ministers are concerned that the low take up of the issue reflects a lack of confidence in the company's management among institutional investors which could further damage BAe's standing.

In a separate development, Mr Peter Lilley, the trade and industry secretary recently met Lord Tombs, Rolls Royce's chairman and Sir Ralph Robbins, the company's chief executive to discuss the aero engine group's position after British Airways' decision to buy US engines for its new fleet of Boeing 777 aircraft.

Although Rolls Royce publicly insists it does not want to make British Airways' decision to buy engines from General Electric, the US group a *cause célèbre*, it could yet become highly controversial with both British companies lobbying behind the scenes.

Mr Lilley assured the two executives that the government would take a firm line if there was any evidence that General Electric, had won the order through predatory pricing to break into Rolls Royce's domestic market. The Office of Fair Trading is inquiring into a related aspect of the deal in which General Electric bought British Airways' engine main-



Lord Tombs: repayments have been cut by 40 per cent

tenance facilities in south Wales for £272m.

Both British Airways and General Electric believe that Rolls Royce's behind the scenes pressure prompted the government to take the unusual step last week of disclosing that the OFT was inquiring into the deal.

Rolls Royce says it has

responded to a routine OFT request for information about the deal in which it also made a bid for the engine facilities as well as to supply engines for the BA Boeing 777 fleet.

British Airways said it chose the GE39, an engine which is still under development, because GE offered a more attractive financial package.

BRITAIN IN BRIEF



MoD denies reviewing army plans

The Ministry of Defence denied weekend reports that the government was reviewing plans to amalgamate Scottish regiments.

However, the MoD said that since the Scottish amalgamations were not planned to take place until 1993 there was time for changes if circumstances altered.

Despite this denial of an immediate review, the Labour party claimed there was an "open and growing split" within the government between Mr Tom King, defence secretary, and Mr Ian Lang, Scottish secretary. Mr John Reid, a Labour defence spokesman, called on Mr King to make a statement. The amalgamation plans, which form part of large scale cuts in defence spending, have prompted strong opposition in

many of the areas affected and have raised fears among government supporters about their impact on the Kincardine and Deeside by-election (background this page).

Job-related training rises

The number of people receiving job-related training has nearly doubled since 1984 according to the government's latest training statistics survey to be published this week.

The survey, which draws heavily on the Labour Force Survey, shows that in 1990 15.4 per cent of employees had received training during the previous four weeks compared with only 9.1 per cent in 1984.

The training statistics survey also estimates that the total cost of training in the UK is £38bn. In July of this year 26 per cent of employers said they expected to spend more on training over the next 12 months compared with 21 per cent who expected to spend less and 47 per cent who expected to spend the same.

ITV to extend sponsorship

ITV announced a big extension of its sponsorship scheme for network television with a list of 37 programmes to be made available for sponsorship in 1992.

The list includes drama such as Inspector Morse and light entertainment programmes

such as Aspel and Company and This is Your Life. It follows the relaxation in January by the Independent Television Commission of programme sponsorship regulations, and the success of ITV's coverage of the Rugby World Cup, sponsored by Sony.

Meanwhile, two independent analysts have expressed doubts on claims by the Independent Television Commission that the Treasury would only get an extra £40m a year on average as a result of the ITV competitive tenders.

Childcare lacking

Only one child in 250 has the chance of attending a workplace nursery in London, according to Working for Childcare, an organisation for the development of quality childcare.

To coincide with the launch by the prime minister today of Opportunity 2000 - a business-led initiative to improve the position of female workers - the organisation carried out an audit of workplace nurseries in London. It said there were 62 in London, providing 1,850 places.

The majority of these places were provided by public sector employers including local authorities, hospitals, colleges, the BBC and the civil service. Working for Childcare estimates there are 485,000 children under the age of five in the capital.

It said: "Lack of childcare is the biggest barrier to women's

equality in the workplace. Yet state provision is also minimal. Less than 3 per cent of under-fives in London have a publicly funded nursery place."

Rise in low pay prosecutions

There have been 83 prosecutions since 1979 out of more than 100,000 companies found paying below Wages Council minimum rates, according to a government statement to a Labour MP.

Only 9 prosecutions were brought by the Wages Inspectorate last year - but already this year the number has risen to 14.

The Low Pay Unit has welcomed this tougher line, but says that with 71 inspectors covering more than 300,000 establishments the inspectorate has insufficient resources.

If the Conservatives win the next election the inspectorate is likely to be disbanded. Labour is committed to substantially heaving up the inspectorate and sanctions against law-breakers.

Australia tipped

Australia are 1-3 favourites to beat England and win the World Cup at Twickenham on Saturday after their 16-6 semi-final triumph over New Zealand in Dublin.

England, who beat Scotland 9-6 at Murrayfield on Saturday in the other semi-final, are rated 11-5 to lift the Webb Ellis trophy.

Proposals for union reform face setback

By David Goodhart, Labour Editor

THE Engineering Employers Federation (EEF) has rejected important elements of the government's proposals to reform unions. It disagrees with several points - legally enforceable collective agreements, postal as opposed to workplace ballots, and annual employee confirmation of automatic check-off of union dues.

With both the organisation of trade union members within the Conservative party and the CBI expected to take an even

less enthusiastic stance than the EEF it seems that few of the proposals will reach the statute book in the event of a Conservative election victory.

The EEF does support the proposal that seven working days' notice of any industrial action should be given by a trade union following a secret ballot and the proposal to override the TUC-administered Bridlington rules, which determine which TUC union a worker may join,

and says that it would not expect a rash of inter-union disputes as a result.

The organisation, with 5,000 member companies, suggests:

● The complex law on industrial action, immunities and balloting should be consolidated into one act.

● Instead of making collective agreements legally enforceable - which could have disadvantages for employers - trade unions should be penalised for endor-

ing industrial action in breach of collective agreements.

It adds: "Our experience is that the incidence of industrial action involving breaches of collective agreements by trade unions is not common."

The organisation says the proposal that there should be annual written consent to check-off of trade union dues by employers would be "an unnecessary administrative nightmare without any commensurate benefit".

Rise of a new political spirit

Ivo Dawney on the decline of the Conservative party in Scotland

ONE of Britain's wealthiest electorates is contemplating alternatives to the Conservative party.

Transplant the rambling Kincardine and Deeside constituency on the Scottish east coast, close to Aberdeen, to the south of England and you could count on a 20,000 plus Conservative majority. Against the national trend, a new oil boom is fuelling the local economy, boosting house prices and driving unemployment down to a statistically negligible 3 per cent.

But all of Scotland is now bandit country for the government and a victory for Mr Marcus Humphrey, its well meaning if wholly anachronistic landowner candidate, in the by-election next month would be almost as surprising as a Labour one.

Before his death last August, even Mr Alick Buchanan-Smith, the charismatic and much loved Tory MP, had found that only by publicly falling out with the government could he hold a slim 2,063 majority over Mr Nicol Stephen, a young, hardworking Liberal Democrat local councillor.

If Mr Stephen now fails to win the seat on November 7, it will be quite as cataclysmic for his fellow Scottish Liberals as a Tory defeat is predictable.

"The Liberals have to win this one," said a canvasser for Mr Malcolm Savidge, Labour's 45-year-old teacher candidate. "If they don't, it gives the lie to their claim that weakness in national polls is made up for

by local strength. All their Scottish seats - half the parliamentary party - are put at risk."

Yet with the psychological complexities of Scotland's four party politics anything remains possible. The more credible of two polls that emerged last week gave the Liberal Democrats 36 points to 28 for the Tories and 17 points each for the Labour party and the SNP.

But the more intriguing alternative - taken earlier and

the party holding not merely over half the seats but, astonishingly, more than 50 per cent of the votes cast as well.

With a general election imminent, the government is now faced with a potential massacre. Only two of its current 10 Scottish seats can be described as rock solid. Elsewhere the Conservatives are under attack from all sides.

With a general election imminent, the government is now faced with a potential massacre. Only two of its current 10 Scottish seats can be described as rock solid. Elsewhere the Conservatives are under attack from all sides.

Privately, even Tories will agree it is not impossible that the election will leave them with just four seats making them merely the fourth party in the country, behind the SNP.

"The problem is that we have become identified as the English party," one Scottish grandee admitted last week. "Mrs Thatcher was seen as wholly out of sympathy with Scotland and we are reaping the whirlwind."

In Kincardine and Deeside, it is that perception of arrogant English neglect that is ranged against Mr Humphrey. His speeches are consequently peppered with undaunting references to the former party leader and praise for Mr John

under attack from all sides.

For the SNP too, the polls have come as an unexpected filip. With a low turnout and the parties close to level pegging, Mr Macartney and his colleagues insist that just 25 per cent of the vote could decide the winner.

Yet when polling day comes, many voters suspect that the contest will be between two varieties of anti-socialism: the traditional Tory ascendancy against the new Liberal Democrat technocratic meritocracy. Few now believe the old Scotland can win.

● 1987 Election results: Conservative 19,438; Liberal Alliance 17,378; Labour 1,624; SNP 3,088; Green 229

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PED Program for Executive Development	MBA Master of Business Administration	IPBM International Program for Board Members	IEP International Executive Program
MCS Managing Competitive Strategy	MP Mobilizing People	LFB Leading the Family Business	WBA Workshop on Business Alliances
MHR Managing Human Resources	MFC Managing Finance & Control	MM Managing Marketing	MIMS Managing Industrial Market Strategy
MS Managing Services	MSF Managing the Sales Force	MMG Managing Manufacturing	MR&D Managing Research & Development
MTI Managing Technological Innovation	OAK Organization-Action-Knowledge-Projects	ICP In-Company Programs	JD&CP Joint Development & Consortium Programs



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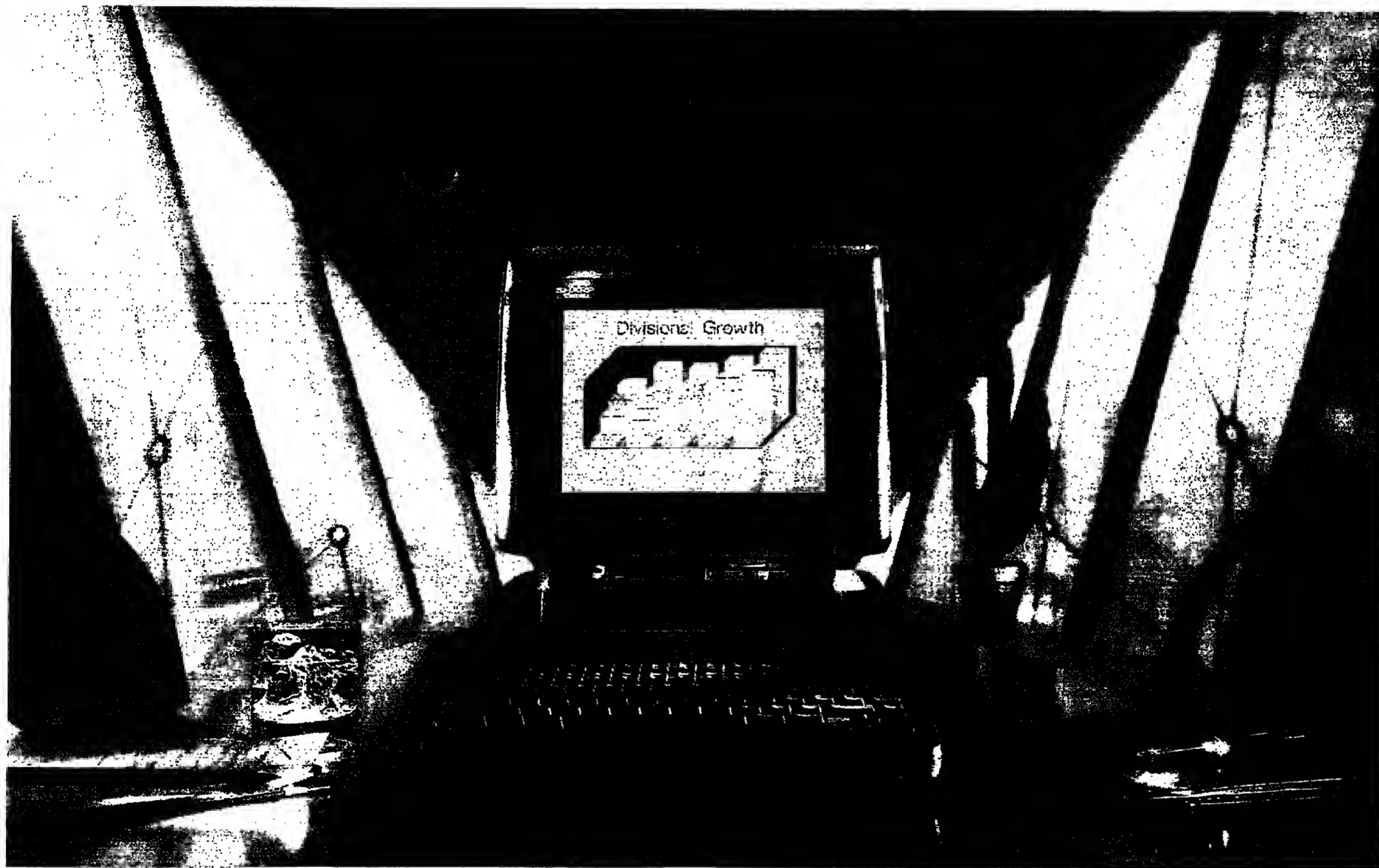
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UK NEWS

Rise in water pollution cases 'disturbing'

By John Hunt, Environment Correspondent

THERE HAS been a "disturbing rise" in the number of companies and individuals being prosecuted for water pollution offences over the past two years, according to a report published today by the National Rivers Authority (NRA).

The companies fined by the NRA, the water watchdog, include British Rail, Imperial Chemical Industries, British Steel, Shell, British Coal, Bernard Matthews Ltd, the BBC and the 10 water companies privatised in England and Wales.

In the report Lord Crickhowell, NRA chairman, warns industry that a tough line will be taken against offenders. He says the NRA is "a watchdog with razor sharp teeth".

He adds: "The public rightly expects polluters to be brought to book in this way and they will continue to be. We will not hesitate to prosecute when necessary, whoever the offender may be."

In the second year of NRA operation, up to September this year, there were 574 successful prosecutions against companies and individuals, including small farmers - a 72 per cent increase on the 334 prosecutions in its first year.

A separate report shortly to be published by the NRA will show a decline in the quality of many rivers and canals in England and Wales.

Mr Andrew Lees, of Friends of the Earth, the environmental pressure group, which leaked the report, said the government had presided over the slow and painful death of many rivers.

According to today's NRA report, the biggest pollution incident was when Shell UK was fined £1m in 1990 for polluting the Mersey with 156 tonnes of heavy Venezuelan crude oil from a corroding pipeline. British Steel was fined £200,000 this year for an oil spill into the Severn Estuary, the second-largest fine for a pollution incident in England and Wales.

Plan for US-style Scottish N-store

By Clive Cookson, Science Editor

SCOTTISH NUCLEAR is hoping to adopt a US-style nuclear store to keep spent fuel indefinitely at its two power stations, instead of sending it for reprocessing.

A group of engineers and managers from Scottish Nuclear this month visited the recently completed \$30m (£17.6m) modular vault dry store (MVDS) at Fort St Vrain nuclear plant, in Colorado.

It is designed to hold spent fuel safely for at least 40 years, without depending on power supplies or external services.

State-owned Scottish Nuclear has chosen MVDS technology - developed in the UK by GEC Alsthom, the Anglo-French engineering company - for its two advanced gas-cooled reactors (AGRs) at Hunterston and Torness.

It is seeking government permission to store all AGR fuel indefinitely on site instead of sending it to British Nuclear Fuels (BNFL) Sellafield plant in Cumbria for reprocessing. Scottish Nuclear says long-term storage would be much cheaper than reprocessing.

In contrast, Nuclear Electric, its English sister company, last month signed a £130m contract with BNFL, which commits it to send fuel to Sellafield from its AGRs and the older Magnox plants for the next 15 years.

Magnox fuel is less suitable for long-term storage than AGR fuel. This enabled BNFL to negotiate an acceptable package with Nuclear Electric for both Magnox and AGR fuel.

Scottish Nuclear, which has no Magnox plants, now pays £80m a year for reprocessing. It estimates that the operating costs of long-term dry storage would be half that.

Environmental campaigners are likely to welcome Scottish Nuclear's move, partly because spent fuel would no longer need to be transported by road or rail and partly because they dislike reprocessing in principle.

Counting the cost of City deregulation

Norma Cohen finds the fund managers' world more uneasy than five years ago



BIG BANG
The first five years of the fund manager's world is a more uneasy one than it was five years ago.

By now, most have come to terms with the new world order, savouring the sharp cuts in commission costs, while bemoaning the passing of an era when one's word was one's bond. In recounting how the world has changed, fund managers emphasise that it is difficult to separate the direct effects of deregulation from the impact of the worst of competition it engendered.

As expected, commission costs have been slashed, so that each transaction is much cheaper than it once was. "Clearly, commission has nearly disappeared," said a fund manager. "We often deal not when we don't deal, but when we do deal at prices that would have been laughed out of court five years ago."

But the fierce battle among City stockbrokers to slash commissions and win institutional business has been accompanied by a new world order that has substantially raised some costs.

In pinpointing the most significant change since Big Bang, fund managers agree that it is their relationship with the City that has been the most fundamental. That change has coloured the way the fund managers deal and



Graeme Knox: "Without any shadow of a doubt, there has been a conflict of interest."

the way they have had to structure their own businesses to provide for themselves that which they once called on their brokers to give them.

"Yuppie to yuppie, you can't trust 'em anymore," said one Edinburgh-based fund manager. He said that since Big Bang he and other Scottish fund managers have installed systems to tape all telephone conversations between brokers and clients. While taping has been a facet of City life for some time, it would have been unheard of in Scotland five years ago. Then, institutional investors agreed to underwrite rights offerings without even seeing the documentation.

something they say they will not do now.

Much of the benefit of the reduction in commission fees has been offset by an increase in salaries, particularly for enhanced research departments, fund managers say.

The rise of the combination brokerage house - part broker, part jobber - has left fund managers with the nagging concerns about conflict of interest. "The biggest single change has been the rise of the integrated house," said Mr John Stubbs, deputy director of Postel, one of the UK's largest pension funds with roughly £20bn under management. "People have found it

hard to serve two masters."

Mr Graeme Knox, investment manager at Scottish Amicable, one of the UK's largest life insurers, said: "Without any shadow of a doubt, there has been a conflict of interest."

The changes were not entirely unexpected. In an FT survey of fund managers conducted on the eve of Big Bang, 11 per cent of respondents predicted that the quality of research would suffer, while 21 per cent worried about conflicts of interests and 11 per cent predicted reduced liquidity in second-line stocks.

Today, there is an almost unanimous view that the quality of research is inadequate,

particularly for smaller companies. "Spending on research has not been paramount - cutting costs is," said the manager of a life insurance company.

The effects of poor quality research has been most evident among smaller companies, whose stock prices react sharply to profits warnings.

Whether the inadequacies of second-tier corporate research reflect the integration of broking and jobbing activities or is merely an outcome of competitive pressure is ambiguous. But for fund managers, that is an irrelevant distinction.

Fund managers say that deregulation has had a marked effect on liquidity. In the very largest stocks, it has actually improved, with increased numbers of firms making markets in them. However, for so-called beta and gamma stocks, liquidity is greatly diminished.

The trading losses which many firms suffered have made them reluctant to commit the same level of capital to the market, institutional investors say.

And, with heightened price transparency and the larger number of players, it is impossible to execute a major buy or sell programme without distorting the market. "By the time it's done, you've stuffed your own position," said one fund manager. "So what I do is to split the order into three brokers at the same time and stuff the market."

This concludes the series on the fifth anniversary of Big Bang. Previous articles appeared on October 21, October 23, October 25 and October 26.

BT chief sees his 12.5% rise as 'catching-up'

FT Reporters

MR IAIN VALLANCE, chairman of BT, yesterday defended a 12.5 per cent pay rise which will increase his annual salary by £50,000 to £450,000. He disclosed that he may also be entitled to a performance-related bonus equivalent to half of his salary this year.

The disclosure of his pay triggered immediate controversy because the workforce at BT, formerly British Telecom, has settled this year for a rise of 7.3 per cent. There was a row in April when BT's annual

report showed that Mr Vallance had received a bonus for the previous year of £150,000.

Mr Vallance said yesterday in an interview on LBC, the London radio station, that his rise of 12.5 per cent was part of a "slow catching-up process" for the BT directors, who were not paid as well as their counterparts in other big companies. He explained that the process was "pretty well complete".

"I do not see it as a bad example," he said, stressing

that he had given 30 per cent of his salary last year to charity and would "most likely" give any bonus payment to charity in the coming year.

"I hold my head up as high as anyone in the private sector," he added. "Much of what we are about is in highly competitive international markets. I would argue BT must be one of the most difficult things to run in the UK."

He said that the BT workforce were paid very well compared with other workers in

the private sector. But he and other senior BT figures had not been paid as well as some of their counterparts elsewhere.

Mr Gordon Brown, shadow trade and industry secretary, called the rise "scandalous". He called on Mr John Major, the prime minister, to back legislation that would force privatised organisations such as BT to cut prices to consumers if their directors were awarded excessive pay rises.

"I am telling Mr Major that his Citizen's Charter is little

more than cosmetic window-dressing and a sham if he does not take new powers to protect the hard-pressed consumer against these boardroom excesses," Mr Brown added.

He said Labour would soon release evidence of the growth in the number of "boardroom millionaires" in privatised companies.

Mr Vallance's pay rise was set by BT's non-executive directors. It was based on his performance and that of the company.

LEGAL NOTICES

DRYSHIRE LIMITED

NOTICE IS HEREBY GIVEN, pursuant to Section 492 of the Insolvency Act 1986, that a meeting of the unsecured creditors of the above named company will be held at 12.00 noon on 14 November 1991 at 12.00 noon for the purpose of having laid before it a copy of the report prepared by the administrative receiver under Section 46 of the said Act. The meeting may, if it thinks fit, establish a committee to enquire into the conduct of the administrative receiver under Section 46 of the said Act. The meeting may, if it thinks fit, establish a committee to enquire into the conduct of the administrative receiver under Section 46 of the said Act.

Creditors whose claims are wholly secured are not entitled to attend or be represented at the meeting. Other creditors are only entitled to vote if:

- they have delivered to us at the address above, no later than noon on 13 November 1991, written details of the debts they claim to be due to them from the company, and the claim has been duly admitted under the provisions of Rule 3.11 of the Insolvency Rules 1986; and
- there has been lodged with us any proof which the creditor intends to be used on his behalf.

Please note that the original proof signed by or on behalf of the creditor must be lodged at the address mentioned; photocopies (including faxed copies) are not acceptable.

Dated: 17 October 1991
Signed: Ian N Carruthers and David R Wilson
Joint Administrative Receivers

A copy of this report will be sent to creditors separately following the meeting.

GENERATED ELEMENTS

NOTICE IS HEREBY GIVEN, pursuant to Section 492 of the Insolvency Act 1986, that a meeting of the unsecured creditors of the above named company will be held at 12.00 noon on 14 November 1991 at 12.00 noon for the purpose of having laid before it a copy of the report prepared by the administrative receiver under Section 46 of the said Act. The meeting may, if it thinks fit, establish a committee to enquire into the conduct of the administrative receiver under Section 46 of the said Act. The meeting may, if it thinks fit, establish a committee to enquire into the conduct of the administrative receiver under Section 46 of the said Act.

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Dated: 17 October 1991
Signed: Ian N Carruthers and David R Wilson
Joint Administrative Receivers

A copy of this report will be sent to creditors separately following the meeting.

THORNHART (UK) LIMITED

Registered Number: 288594
Nature of business: Manufacturer of refrigerated semi-trailers
Trade Classification: 35
Date of Appointment of Joint Administrative Receivers: 18 October 1991
Name of Person Appointing the Joint Administrative Receivers: S G Warburg & Co Limited
Name of Joint Administrative Receivers: Christopher John Hughes and Christopher John Barlow
Joint Administrative Receivers (Office holder numbers 2041 and 552) of Cork Gully, Shelley House, 3 Noble Street, London EC2V 7DQ

MORCAT LIMITED

NOTICE IS HEREBY GIVEN, pursuant to Section 492 of the Insolvency Act 1986, that a meeting of the unsecured creditors of the above named company will be held at 12.00 noon on 14 November 1991 at 12.00 noon for the purpose of having laid before it a copy of the report prepared by the administrative receiver under Section 46 of the said Act. The meeting may, if it thinks fit, establish a committee to enquire into the conduct of the administrative receiver under Section 46 of the said Act. The meeting may, if it thinks fit, establish a committee to enquire into the conduct of the administrative receiver under Section 46 of the said Act.

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Dated: 17 October 1991
Signed: Ian N Carruthers and David R Wilson
Joint Administrative Receivers

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IMAGERY LIMITED

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Dated: 17 October 1991
Signed: Ian N Carruthers and David R Wilson
Joint Administrative Receivers

A copy of this report will be sent to creditors separately following the meeting.

COLWYN STATION LIMITED (FORMERLY L.C.E. (COLWYN) LIMITED)

Registered Number: 2489473
Nature of business: Engineering
Trade Classification: 35
Date of Appointment of Joint Administrative Receivers: 18 October 1991
Name of Person Appointing the Joint Administrative Receivers: S G Warburg & Co Limited
Name of Joint Administrative Receivers: Christopher John Hughes and Christopher John Barlow
Joint Administrative Receivers (Office holder numbers 2041 and 552) of Cork Gully, Shelley House, 3 Noble Street, London EC2V 7DQ

BOURNE LINES LIMITED (FORMERLY ABERDEEN LINE LIMITED)

Registered Number: 244035
Nature of business: Shipping
Trade Classification: 40
Date of Appointment of Joint Administrative Receivers: 18 October 1991
Name of Person Appointing the Joint Administrative Receivers: S G Warburg & Co Limited
Name of Joint Administrative Receivers: Christopher John Hughes and Christopher John Barlow
Joint Administrative Receivers (Office holder numbers 2041 and 552) of Cork Gully, Shelley House, 3 Noble Street, London EC2V 7DQ

LICHFIELD WOOL LIMITED (FORMERLY L.C.E. (LICHFIELD) LIMITED)

Registered Number: 242383
Nature of business: Textiles
Trade Classification: 26
Date of Appointment of Joint Administrative Receivers: 18 October 1991
Name of Person Appointing the Joint Administrative Receivers: S G Warburg & Co Limited
Name of Joint Administrative Receivers: Christopher John Hughes and Christopher John Barlow
Joint Administrative Receivers (Office holder numbers 2041 and 552) of Cork Gully, Shelley House, 3 Noble Street, London EC2V 7DQ

GREAT YARMOUTH WOOL LIMITED (FORMERLY L.C.E. (GREAT YARMOUTH) LIMITED)

Registered Number: 242383
Nature of business: Textiles
Trade Classification: 26
Date of Appointment of Joint Administrative Receivers: 18 October 1991
Name of Person Appointing the Joint Administrative Receivers: S G Warburg & Co Limited
Name of Joint Administrative Receivers: Christopher John Hughes and Christopher John Barlow
Joint Administrative Receivers (Office holder numbers 2041 and 552) of Cork Gully, Shelley House, 3 Noble Street, London EC2V 7DQ

UNITED RAILWAYS OF THE HAVANA AND REGULA WAREHOUSES LIMITED (In Voluntary Liquidation)

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the Holders of Consolidated Stock in the above-named Company will be held at New Garden House, 78 Holton Garden, London EC1M 6AA on 20 November 1991 at 12.15 p.m. for the purpose of considering and, if thought fit, passing the following resolutions:

- That the resignations of Adrian John Pugh as Liquidator of the Company with effect from the date of the Meeting be and is hereby accepted;
- That Edwin David Stanley Kitcher of the firm of Pannell Kerr Forster, Chartered Accountants, be and is hereby appointed as Liquidator of the Company for the purpose of the Voluntary Winding-Up of the Company with effect from the date of this Meeting;
- That the Account of the Liquidators set out in the Statement of Affairs dated 20 November 1991 be and is hereby approved.

Dated this 21st day of October 1991
A J Pannell
Liquidator

NOTICE OF APPOINTMENT OF JOINT ADMINISTRATIVE RECEIVERS

WORKINGTON WOOL LIMITED (FORMERLY L.C.E. (WORKINGTON) LIMITED)

Registered Number: 245445
Nature of business: Textiles
Trade Classification: 26
Date of Appointment of Joint Administrative Receivers: 18 October 1991
Name of Person Appointing the Joint Administrative Receivers: S G Warburg & Co Limited
Name of Joint Administrative Receivers: Christopher John Hughes and Christopher John Barlow
Joint Administrative Receivers (Office holder numbers 2041 and 552) of Cork Gully, Shelley House, 3 Noble Street, London EC2V 7DQ

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- they have delivered to us at the address above, no later than noon on 13 November 1991, written details of the debts they claim to be due to them from the company, and the claim has been duly admitted under the provisions of Rule 3.11 of the Insolvency Rules 1986; and
- there has been lodged with us any proof which the creditor intends to be used on his behalf.

Please note that the original proof signed by or on behalf of the creditor must be lodged at the address mentioned; photocopies (including faxed copies) are not acceptable.

Dated: 17 October 1991
Signed: Ian N Carruthers and David R Wilson
Joint Administrative Receivers

A copy of this report will be sent to creditors separately following the meeting.

YORK TRAILER CO LIMITED

Registered Number: 2220180
Nature of business: Manufacturer of commercial vehicles
Trade Classification: 35
Date of Appointment of Joint Administrative Receivers: 18 October 1991
Name of Person Appointing the Joint Administrative Receivers: S G Warburg & Co Limited
Name of Joint Administrative Receivers: Christopher John Hughes and Christopher John Barlow
Joint Administrative Receivers (Office holder numbers 2041 and 552) of Cork Gully, Shelley House, 3 Noble Street, London EC2V 7DQ

YORK TRAILER OVERSEAS LIMITED

Registered Number: 2220180
Nature of business: Manufacturer of commercial vehicles
Trade Classification: 35
Date of Appointment of Joint Administrative Receivers: 18 October 1991
Name of Person Appointing the Joint Administrative Receivers: S G Warburg & Co Limited
Name of Joint Administrative Receivers: Christopher John Hughes and Christopher John Barlow
Joint Administrative Receivers (Office holder numbers 2041 and 552) of Cork Gully, Shelley House, 3 Noble Street, London EC2V 7DQ

ANTHONY CARRIMORE LIMITED

Registered Number: 214618
Nature of business: Non-trading
Trade Classification: 99
Date of Appointment of Joint Administrative Receivers: 18 October 1991
Name of Person Appointing the Joint Administrative Receivers: S G Warburg & Co Limited
Name of Joint Administrative Receivers: Christopher John Hughes and Christopher John Barlow
Joint Administrative Receivers (Office holder numbers 2041 and 552) of Cork Gully, Shelley House, 3 Noble Street, London EC2V 7DQ

YORK TRAILER (UK) LIMITED

Registered Number: 2220180
Nature of business: Manufacturer of commercial vehicles
Trade Classification: 35
Date of Appointment of Joint Administrative Receivers: 18 October 1991
Name of Person Appointing the Joint Administrative Receivers: S G Warburg & Co Limited
Name of Joint Administrative Receivers: Christopher John Hughes and Christopher John Barlow
Joint Administrative Receivers (Office holder numbers 2041 and 552) of Cork Gully, Shelley House, 3 Noble Street, London EC2V 7DQ

YORK TRAILER CO LIMITED

Registered Number: 214748
Nature of business: Manufacturer of commercial vehicles
Trade Classification: 35
Date of Appointment of Joint Administrative Receivers: 18 October 1991
Name of Person Appointing the Joint Administrative Receivers: S G Warburg & Co Limited
Name of Joint Administrative Receivers: Christopher John Hughes and Christopher John Barlow
Joint Administrative Receivers (Office holder numbers 2041 and 552) of Cork Gully, Shelley House, 3 Noble Street, London EC2V 7DQ

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Dated: 17 October 1991
Signed: Ian N Carruthers and David R Wilson
Joint Administrative Receivers

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Registered Number: 2220180
Nature of business: Manufacturer of commercial vehicles
Trade Classification: 35
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YORK TRAILER OVERSEAS LIMITED

Registered Number: 2220180
Nature of business: Manufacturer of commercial vehicles
Trade Classification: 35
Date of Appointment of Joint Administrative Receivers: 18 October 1991
Name of Person Appointing the Joint Administrative Receivers: S G Warburg & Co Limited
Name of Joint Administrative Receivers: Christopher John Hughes and Christopher John Barlow
Joint Administrative Receivers (Office holder numbers 2041 and 552) of Cork Gully, Shelley House, 3 Noble Street, London EC2V 7DQ

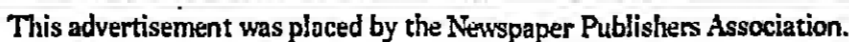
YORK TRAILER CO LIMITED

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THE COMPANY OF
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FIXED RATE NOTES DUE 1985
INTERESTED PARTIES TO THE PROCEEDINGS ARE
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STATE OF NEW SOUTH WALES HAS ORDERED
ON 20/04/2005 THAT THE PROCEEDINGS
BE DISCONTINUED AND THE NOTES
BE REDEEMED AT THE PARITY OF
THE MARKET RATE OF EXCHANGE
ON THE DATE OF REDEMPTION
THE COURT OF APPEAL HAS ORDERED
THAT THE COSTS OF THE PROCEEDINGS
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Bangkok hotel plan

BOVIS (THAILAND), a wholly-owned subsidiary of the P&O company Bovis International, has been appointed project manager for the construction of a 500 bedroom hotel in Bangkok, Thailand, costing around \$20m.

The client is Takson Hotel Holding Company, a joint venture company formed between Tomen Corporation of Japan and Thai Partners.

Scheduled to open in May 1995, the 20,000 sq metre hotel will have 17 conference suites, four banqueting suites, eight restaurants, tennis courts and parking for 400 cars.

Sea outfall

CHRISTIANI & NIELSEN has been awarded the contract for the construction of Invergowrie outfall at Dundee. The project is valued at £2.7m and comprises the construction of two 762mm diameter weight coated steel pipelines 1,020 metres long. The offshore section, 510 metres in length, is partly buried except for 230 metres which are supported on piles.

Mixed batch

ALLEN has won orders worth in excess of \$9m through Allen-Fox Construction and Allen Building. Projects include a multi-trade store at Croydon for Makro Properties, a health and leisure centre in Manchester and work at Wigan's Sovereign Business Park.

Industrial park

The southern regional office of **WILLETT** has been awarded two contracts at The Brooklands Industrial Park with a value of over £1m. The first, valued at \$875,446, for Brooklands Estates, is to construct a block paved access road on Heights Spine Road. The second, worth £400,000, for Trafalgar House Brooklands, is for various small works.

CONSTRUCTION CONTRACTS

Northampton sports complex

Building contractor **E M DOUGLAS CONSTRUCTION** has been awarded a £1m contract to build a multi-sports complex and stadium for Northampton Borough Council.

The two-part contract covers the preparation of the former landfill site and the construction of a 14,500 capacity all-weather stadium with turf infield, international standard athletics track and management suites, together with an adjoining sports hall and all-weather hockey stadium.

Advance works are due to begin this month and will involve the excavation and removal of 250,000 tons of domestic and commercial waste using specialised methane monitoring and containment procedures. The excavated area will be brought up to foundation level with 100,000 cu metres of imported common fill material.

Work is due for completion in time for the 1993-94 football season.

Construction work will begin in February. The stadium will be based on a cast in situ concrete base slab, designed and built by Douglas Construction, with precast concrete superstructure and terracing. The seating will be fully covered by a tubular steel roof clad with pvc coated profiled metal sheeting.

Work is due for completion in time for the 1993-94 football season.

Upgrading Docklands Light Railway

MOWLEM CIVIL ENGINEERING, a division of John Mowlem construction, has started work on a further \$8m project for the Docklands Light Railway. The work comprises structural modifications between North Quay and Canary Wharf which will add two further tracks and the reconstruction of West India Quay station to enable this section of railway to handle a greater volume of traffic.

The new structures and track across the North Docks will result in part of the work,

including piling, being carried out from marine craft. All the work will be undertaken with the minimum disruption to rail services. The scheme is part of the DLR's ongoing programme designed to improve operational flexibility and handle the number of passengers projected when the Canary Wharf development is fully occupied. Completion is scheduled for Easter 1993.

Mowlem South East has won the first phase of a \$8m scheme to improve the access to Wembley Stadium in north west London. Mowlem's £1.5m contract will provide a new pedestrian link between the stadium and Wembley Park underground station.

Work will comprise the demolition of the pedestrian subway, the regrading of the northern end of Olympic Way and building an 18 metre wide subway under Bridge Road. This will have piled abutment walls and composite steel and concrete bridge deck. The area underneath the deck will be excavated once the bridge has been installed.

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Major Government maintenance order

TARMAC CONSTRUCTION has been called in by the Department of Social Security to give it a helping hand with its buildings.

Tarmac Management has signed a maintenance and management contract with the Department of Social Security, worth \$9m a year, to look after 50 of its buildings.

All Department of Social Security buildings in a region stretching from north of the Thames to the Wash, and from east of Oxford to the North Sea come within the contract,

which is to run for three years. Tarmac Management has also been awarded a £1m fitting out contract at Trafalgar Square, for Dilsons bookshop.

Another well-known London landmark figures on Tarmac Construction's latest list of contracts - the Old Kent Road. A \$2m scheme for widening and improving the Old Kent Road has been awarded by Southwark Borough Council.

Other recent contracts awarded to the company include £1.5m worth of reconstruction work on the M4

between junctions 12 and 13 for Berkshire County Council; a two-storey office block at the Royal Signals Radar Establishment at Malvern for the Ministry of Defence (£773,000) and the fitting out of London & Carlton offices at Colindale at a cost of £440,000.

The contract housing division has won orders for refurbishment of houses at Cardale for Hag Homes, (£320,000) and building 15 dwellings for the Family Housing Association at Aston, Birmingham (£700,000).

Variety of projects for John Lelliott

The **JOHN LELLIOTT CONSTRUCTION GROUP** has been awarded a total of £15m worth of contracts, including the £5.4m fitting out of two Safeway supermarkets, both of which were built by the Group. One is a £3m contract, which includes shop fitting and the installation of a lift and travelator, for Safeway at the junction of Horn Lane and King Street, Acton, W3. The other is a £2.4m project involving shop fitting, M & S and refrigeration installation at Lake, Sandown on the Isle of Wight.

Other fitting out work

includes a £1.5m office accommodation project at Barnards Court, 90 Fetter Lane, EC4 for Bird & Bird; the £1m fitting out of three Index Catalogue shops in High Road, Ilford, Vicarage Field, Barking, and Princes Mead, Farnborough, Hants; the £550,000 fitting out of two Abbey National offices in High Street, Epping and Green Lane, NW1; the £550,000 fitting out of an oncology laboratory and refurbishment of the main entrance at the Royal Free Hospital, Hampstead, NW3, and the £400,000 fitting out of a shell to form a C & A retail unit at St Nicholas Centre, Sutton, Surrey.

General contracting work includes the £800,000 refurbishment of 31 Dover Street, W1, for Omniterra Properties; the £760,000 construction of a kitchen at the Cavalry and Guards Club, Piccadilly, W1; the £750,000 building of leisure facilities and office fitting out at Harefield Road, Uxbridge for BP Engineering; the £630,000 refurbishment of class rooms for Kings College choir school and the £500,000 construction of a store shell for Iceland in Newport, Isle of Wight.

APPOINTMENTS

New head of Pilkington's German subsidiary



Mr Erik Ehrentraut (pictured above) has been nominated as head of the management board of **FLASHGLAS AG**, PILKINGTON'S German flat and safety glass manufacturer. He succeeds Mr Gunther Krussmann who has retired after 38 years of service. Mr Ehrentraut, who has a law doctorate, studied at the universities of Frankfurt and Hamburg. He joined Flachglas in 1973 and has held various positions in accounting, taxation, insurance and risk management.

N M ROTHSCHILD and Sons (Denver) has recruited **Mr Ron Vance** from **NEWMONT MINING** where he was vice-president for project development and marketing. He is to become director with responsibilities for treasury services. Before joining Newmont Mining Mr Vance worked for Amstar and the Bunker Hill Company. He has been an alternate director of the World Gold Council and chairman of the planning committee of the Gold Institute.

Mr Hendrik Borggreve has been appointed managing director of **KLEINWORT BENSON DEUTSCHLAND** at their new office in Frankfurt. He is to lead a team of eight which is set to expand over the coming year. The branch is principally involved in cross-border finance including mergers and acquisitions and structured finance.

Mr Peter Schweinhage has been promoted to managing director of **DEMINEX UK OIL AND GAS** to succeed Mr Detlev Lehning who is taking over as general manager of **DEMINEX SYRIA** which is based in Essen, Germany. Mr Schweinhage has been with the Deminex group for 21 years and held a number of senior management positions, mostly recently being in charge of its Syrian and Indonesian interests.

Mr John Toynes as executive director of the **TIBBETT & BRITTEN GROUP** after successfully integrating Lowfield Distribution which was acquired in September 1990. Mr Brian Williams is joining the board next month to take responsibility for the group's grocery business which is now managed by Lowfield.



AMERICAN AIRLINES has announced personnel changes in its European and UK airport operations. **Mrs Barbara Fesser** (pictured above) is to become managing director for its European operations with responsibility for 12 airports and 206 flights a week. She replaces Mr Steve Leonard who joins the airline's cargo operations at its Dallas/Fort Worth headquarters.

Mr Peter Atkinson has become chief executive of **GKN** vending division. Aged 34, he was formerly a director and general manager of **ACS Coffee Services** which he joined in July 1988 after seven years in a marketing role at Johnson Wax.

Mr Keith J. Swan is to head the European office of **JOHN DMC KROWN & CO.**, a member of the New York Stock Exchange. Based in London he will be responsible for working with clients to provide a direct dealing service between Europe and the New York trading floor.

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FT SURVEYS



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Today, SCA is far from being a conventional forest company. We invest regularly in the development of more value-added products in the areas of graphic paper, packaging and hygiene. Two thirds of our sales consist of consumer-oriented or converted products.

An example of our development is provided by our two billion Swedish kronor investment in a completely new production line for LWC paper at SCA in Ortviken - a model plant from an environmental point of view. This is where we produce **GraphoCore™**, a light-weight grade of paper with excellent printing characteristics, for weekly magazines and quality advertising print.

All of this means that SCA Graphic Paper can offer a comprehensive range of wood containing printing paper, standard and improved newsprint, SC paper and LWC-paper.

Our highly-processed products are based on our extensive knowledge of the countless ways in which wood fibre may be used, coupled with SCA's forest resources which represent the biggest private forest holdings in Europe.

In 1990, we acquired the British company **Reedpack**. This makes SCA one of the leading processors of recycled paper and the second largest waste paper merchant in Europe. In fact, no less than half of our product output is based on recycled paper.

In our opinion, our forest resources should be used where they do most good - in more value-added products. And that's an opinion that our customers agree with!



The SCA Group conducts its activities through five business groups. The consumer-oriented business groups are Hygiene (Babynyl), with annual sales of SKr 12bn; Packaging, SKr 11bn; and Graphic Paper, SKr 7bn. Raw material resources are managed by the business groups Forest and Timber, SKr 4bn, and Energy, SKr 1bn. If you would like to know more about SCA Graphic Paper, please call +46 (0) 10 40 005. If you have questions about the SCA Group, please call +46 (0) 865 00 00.

MANAGEMENT

Unilever's food operations

Just one Cornetto...

When the multinational discovered it was making 15 different ice-cream cones it decided to formulate a more coherent global strategy. Guy de Jonquieres reports

Europeans may increasingly drive the same makes of car, watch the same television programmes and buy the same shampoos. But when they sit down to eat, they are notorious for reverting to highly individual patterns of national and regional behaviour.

All the same, Unilever was surprised to discover recently that it was using 85 varieties of flavouring in the chicken soups it sells in Europe, and making Cornetto ice creams – supposedly a standardised Euro-product – in 15 different cone shapes.

Only a few years ago, these disparities would have gone unnoticed. However, the approach of the single European market, changing tastes and fiercer competition have compelled Unilever to ask whether it needs – or can afford – such diversity.

In many cases, the answer is no. Indeed, the company has concluded that its product range has often evolved less in response to vagaries of consumer taste than because each of its traditionally autonomous national subsidiaries had been left to do things in its own way.

Now, Unilever has launched a drive to re-shape its food business by eliminating inefficient duplication, rationalising internal collaboration and extending products and marketing concepts faster across borders.

These initiatives, which began to take shape in the late 1980s, have received powerful impetus since August last year, when Unilever set up at its Rotterdam headquarters the Food Executive, a co-ordinating body intended to formulate a more coherent global strategy.

Morris Tabakshlat, the main board director who heads the executive, says an important reason for creating it was that the imperatives of European reorganisation were increasingly distracting top management attention from wider international priorities.

Until last year, executive responsibility for Europe lay with the Unilever groups responsible for co-ordinating product strategies. In practice, this dual harness meant that European operational concerns overshadowed the promotion of products in other parts of the world.

The company was also increasingly handicapped by the arbitrary sub-division of its foods businesses into three cat-

egories, comprising, respectively, edible fats, frozen products and sundry food and drinks. "We had problems of territory, cracks, overlaps and conflicts," says Tabakshlat.

For instance, when Unilever's German margarine and other food and drinks subsidiaries were amalgamated in the late 1980s, the chairman of the merged company found himself reporting to two bosses whose priorities did not always concur.

Worse still, market opportunities were missed. In the UK, Unilever dithered about entering the fast-growing market for chilled prepared meals, because these fell between the product categories the company was organised to handle.

The reorganisation, though far less radical than that recently introduced for detergents, is intended to separate more clearly responsibility for geographic operations and product lines, while enabling them to be co-ordinated more effectively.

Regional directors have been appointed with specific responsibility for north and south Europe and the US, while food products have been split into five market-based categories with worldwide remit.

Knitting the matrix together is the job of the food executive and of a cluster of newly-created committees which combine representatives of national and regional operating companies and product groups. Tabakshlat says Unilever is now equipped to promote products such as ice-cream or tea on a co-ordinated worldwide basis.

The acid test of the reorganisation will be in Europe, which accounted for 61 per cent of Unilever's £1bn food business last year. Its 50 operating subsidiaries there are already being spurred both to compete more directly to develop and make new products, and to collaborate more closely in bringing them to market.

While competition is starting to yield manufacturing benefits (see accompanying article),

collaboration is prompting Unilever increasingly to explore uncharted zones of the European palate. "We are questioning more the old beliefs and traditions," says Tabakshlat.

In the old days, when each operating company developed products only for its local market, launching them in other countries could take up to seven years. Today, priorities have been reversed, to ensure that from the outset new products are sold in as many countries as possible.

"We are trying more strongly for international products," says Manfred Stach, head of Union, Unilever's largest German foods subsidiary. "Only if there really is a distinct difference in taste do you

judging where harmonisation will not be noticed by consumers – and where genuine differences in local taste will create resistance."

In general, Tabakshlat says, the easiest products to harmonise are impulse buys, such as ice-cream bars. But the closer a particular food comes to being part of consumers' staple diet, the harder it becomes to transfer across borders.

While consumers are increasingly prepared to try new and exotic foods, these usually remain niche products. According to Allan Price, chairman of Birds Eye Wall's, Unilever's UK frozen foods subsidiary, about five varieties of staple food account for three quarters of sales in every

national market, with the rest divided between 10 or more niche products.

Yet there are exceptions. Lasagne has become virtually a staple food in many European – and American – households. By contrast, Birds Eye Wall's has made seven unsuccessful attempts in five years to create a UK market for Carte d'Or, a premium ice-cream which sells well on the continent.

Attempts to interest British consumers in frozen herbs – Unilever's most profitable frozen product in Germany – have also flopped. So have efforts to emulate another German success, a gourmet frozen fish dish. "We have had it on the market twice, and it's failed twice. We're going to try again because this is something we've got to make work," says Price determinedly.

Even if products cannot always be transferred successfully across borders, the marketing concepts and experience behind them can be. An example is Du Darist (literally, "You

May"), a range of healthy eating foods launched in Germany 18 years ago and now an umbrella brand covering 120 different products there.

As concern with healthy eating has spread, the Du Darist formula has been adapted to other countries and rechristened Efi in France and Delite in Britain. One advantage is that the brand can be supported by common trans-European advertising campaigns, cutting marketing costs.

Unilever companies are also applying each other's brands to new products. Birds Eye Wall's, for instance, has extended to frozen foods the Gino Ginelli ice-cream brand developed in Germany. So far, the tactic has produced mixed results. It has worked well with pizza, but not with pasta.

The approach can involve costly pitfalls. When Unilever set out to extend Healthy Options, a British line of ready meals, to other European countries two years ago, it learned too late that many prohibit use of the word healthy in a product name.

Just how far the company can push harmonisation, both in Europe and globally, is the subject of growing internal debate. Many executives insist local differences will keep the food business fragmented for many years to come, and that product innovation must remain firmly with individual national operating companies.

But others at a senior level of the company disagree. They say some foods, such as oils and fats, which are much the same everywhere, would benefit from more centralised direction of the kind which the company is applying to detergents.

The argument will not be easily settled. But the faster international tastes in food converge, and the easier it is to cater to them with common marketing strategies, the more insistent the pressures for further change are likely to become.

An earlier article on Unilever's detergents operations was published on October 21.

Unilever's detergents operations were published on October 21.



Pulling their fingers out

Allan Price (above left) and fellow managers at Birds Eye Wall's had long assumed engineering costs on their fish-finger lines were lower than those at Langnese-Igloo, their German sister company. Two years ago they were shocked to discover that, though Langnese paid higher wages, more efficient working practices gave it a 10 per cent cost advantage.

At first, Price says, his factory staff accused him of fudging the figures. Only after seeing Langnese-Igloo's Bremerhaven plant in operation did they agree to changes on their own lines which eliminated the cost difference.

The exercise was made possible by using a powerful computer system known as Best Proven Practice, which enables managers of Unilever's food subsidiaries continuously to monitor and compare each other's production costs.

The system is part of an efficiency drive which is challenging long-established habits and practices in the company's operating subsidiaries throughout Europe.

Product sizes and packaging are increasingly being harmonised. Fish-fingers, currently available in seven different sizes, will in future be made in only two, while a reduction in the number of margarine tubs from 21 to nine is planned.

Manufacturing of internationally saleable products is being concentrated in fewer,

higher factories. Chocolate ice-cream, for instance, is now made at only two plants, in Gloucester, western England, and Heppenheim in Germany, while Italian processed cheese production has been transferred to New Ulm in Germany.

These moves have several objectives:

- To reduce costs by eliminating excess capacity, improving scale economies and siting production in the most efficient plants.
- To deepen the experience of factory managers and workers by enabling them to specialise in making a limited range of products in large volumes.
- To enable production to be switched more easily between plants in response to fluctuations in European demand.
- To encourage healthy competition between plants in different countries.

Unilever will not say how much further the rationalisation has to run, and whether it will involve shutting any of its 100 plant sites as well as moving production lines. However, Morris Tabakshlat, (above right) who estimates Unilever had twice the production capacity it needed when the restructuring began, says: "I'm not saying we won't close."

But he is also emphatic that the company does not aim to have every product made in just one plant. Once factors such as transport costs and security of supply are taken into account, he says, such a system would be uneconomic.

Management abstracts

The voice of experience. J Van Aht in Personnel (US), Jan 91 (1 page)

Presents an approach to induction training whereby starters are given classes taught by employees who started at the bottom and who have developed and progressed in the organisation. Four subjects are covered: people skills, making the transition (to the company), professionalism, and keys to success. Claims this role-model approach works well for both teacher and pupil.

Making time for productivity. P Lynch in Personnel Management (UK), March 91 (5 pages)

Asserts that the need for management to raise productivity is as true today as it has ever been; despite this, work standards have been abandoned and work study departments relegated to the sidelines and "headcount control" has taken their place, but at the cost of uncontrolled overtime. Argues that the principal elements of the productivity equation must be to increase the time employees spend actually working productively, and to make more use of plain-time working hours (which do not attract premium payments); examines strategies which support each of these elements.

Diagnosing global strategy potential. G Vignola in CA Consultants in Planning Review (US), Jan/Feb 91 (11 pages)

Taking the world chocolate confectionery industry as an example, discusses a framework for diagnosing industry globalisation potential and explains how to develop a globally integrated strategy. Argues that potential depends on four conditions – market, cost, government regulation and competition – each of which provides factors that drive the industry towards globalisation; describes these drivers, identifying market and competitive drivers as the strongest spurs to globalisation in the industry. Explores how the major competitors – Nestlé, Hershey, M&M Mars, and Jacobs Suchard – are using global strategy in terms of market participation, product, value-added activities, marketing and competitive moves, and what they could learn from each other.

These abstracts are condensed from the abstracting journals published by Amber Management Publications. Licensed copies of the original articles may be obtained at a cost of £5.00 (including VAT and p.p.c. with order) from Amber at Thame Lane, Basingstoke, West Yorkshire BS26 3BT.



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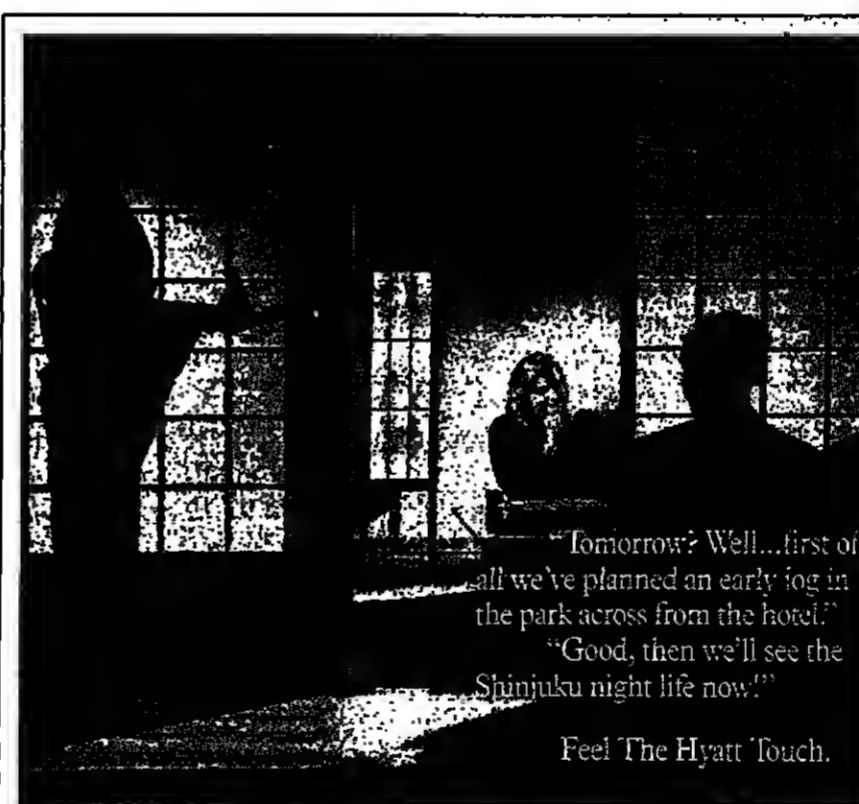
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FT SURVEYS

VENTERSPOST GOLD MINING COMPANY LIMITED

(Incorporated in the Republic of South Africa)

Registration No. 05/05632/06

EXERCISE OF OPTIONS

At general meetings of ordinary and deferred shareholders and of option holders held on 25 October 1991, the necessary resolutions were passed in terms of which the amended conditions relating to options, providing for the options to be exercised during the period 1 November 1991 and noon on 30 November 1991 or during the period 1 November 1992 and noon on 30 November 1992, were approved. The special resolution passed by the option holders has been lodged for registration with the Registrar of Companies, Pretoria, in compliance with the provisions of the South African Companies Act.

Option holders who do not wish to exercise their options during November 1991 are required to surrender their option certificates in order that replacement certificates, reflecting the amended conditions, may be issued. The relevant documentation in this regard will be mailed to option holders shortly.

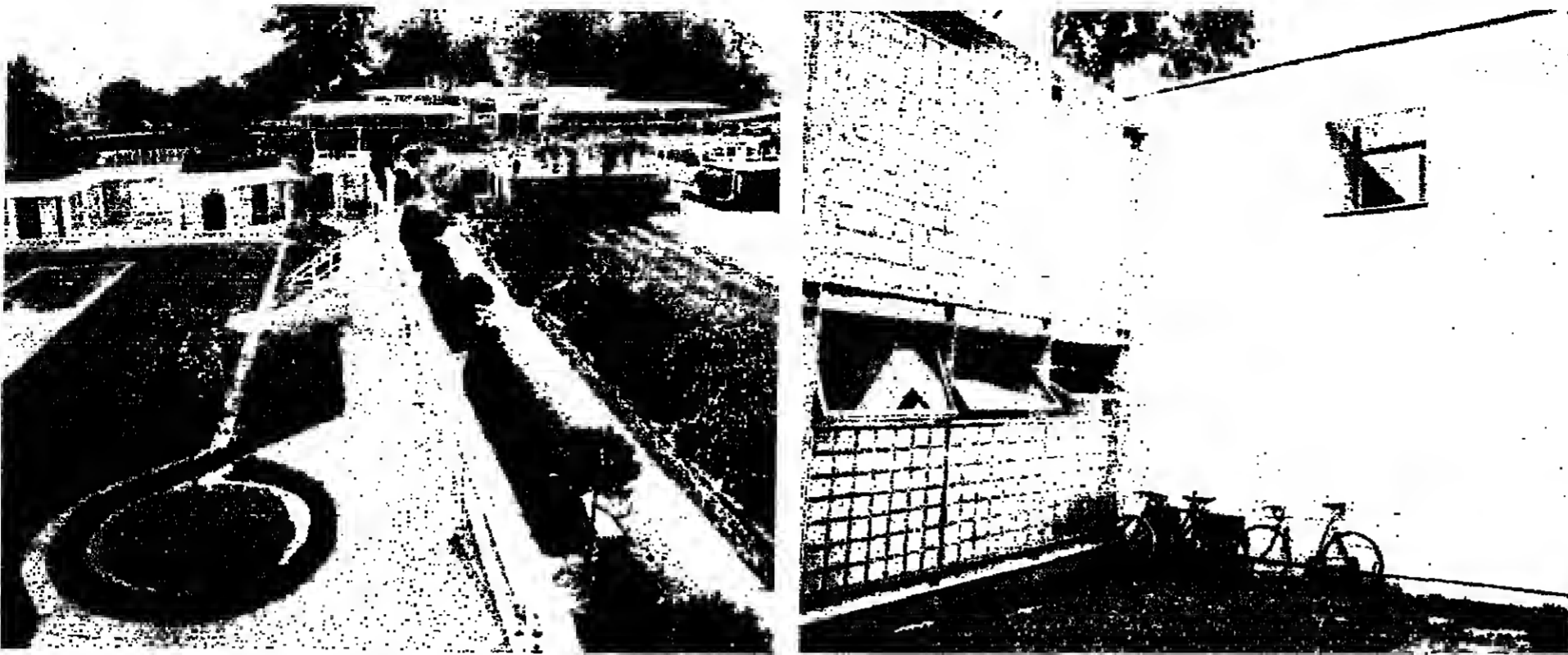
Registered Office and Head Office: 75 Fox Street Johannesburg 2001

London Secretaries: Gold Fields Corporate Services Limited, Grosvenor House, Francis Street, London SW1P 1DH

28 October 1991

A MEMBER OF THE GOLD FIELDS GROUP

ARTS



Edward Cullinan's new headquarters for the RMC Group plc; and David Chipperfield's set of mews studios in Camden Town

ARCHITECTURE

Some little gems in the FT awards' crown

The countdown continues. On November 4 the secretary of state for the environment will announce the winner of this year's *Financial Times* Architecture at Work Award. To accomplish the difficult task of selecting a winner, the jury (two architects, Nicholas Grimshaw and John Outram, and one distinguished layman, Lord Gibson) have spent many hours examining the shortlisted buildings.

It may be a reflection of the policies of the Thatcher years that so many of them were in the south-east. A lot were products of the 1980s property boom and this factor, in many cases, seemed to rule out real architectural achievement. That delicate balance between commercial values, economies of construction and architectural design sophistication is very hard to achieve; and it is just that balance of achievement which the *FT* Award seeks to discover and reward.

Sometimes that special sort of architectural achievement is more easily found in buildings and projects of a smaller scale. There were several of these on this year's shortlist: perhaps they are the jewels in British architecture's tarnished crown.

Architects Peter Aldington and Paul Collinge were commissioned by W.H. Smith to build a small office building in the park of Milton Hill in Berkshire. The old house was once

the home of the Singer sewing machine family and is now the W.H. Smith training centre. Aldington and Collinge are best known for their very sensitively designed modern houses, often set in intriguing gardens. Their architectural language uses brick and timber with often a hint of Scandinavian modern design.

The brief for this modest building was to make a home for the pension trust fund staff who were to be relocated from London. The budget was tight and the needs relatively simple - modest offices with good daylight and the necessary wiring for up to date computer installations. The result is a glass, brick and timber pavilion set almost like a lodge to the main house and park. Its best feature is the quality of the natural light in the offices and the views out into the landscape. It is undoubtedly a very agreeable place to work in and it provides an enjoyable experience as you pass from the low-key front entrance to the sweeping views from the south and west-facing sunny offices.

Another modest, almost secret, development is a set of studios in a mews in London's Camden Town. These were designed by David Chipperfield, a younger architect who is much influenced both by the early days of the heroic Modern Movement and by contemporary Japanese archi-

ecture. Because the site is surrounded by houses and gardens, most of the light for the interior spaces is provided through roof lights or glass bricks reminiscent of the 1930s. The other materials are concrete in a smoothed out "brutal" style, and steel and glass. The language is Cubism with a fair dose of "designer culture" thrown in. It is not by chance that these studios are occupied by architects and designers, who seem very happy in the ideal geometry of a replica of a late Corbusian villa set down rather surprisingly in Camden Town.

Scale changes a little in Chilworth Park, a development of six two-story pavilions set in a formal landscape surrounding a manor house in Hampshire. This was a joint promotion by Southampton University and the property company MEPC. This is one of two buildings in the short list designed by Edward Cullinan. The whole scheme is somehow more than the sum of its parts. The concrete frame buildings with their metal roofs are rescued from monotony by canopies of cedar slats resting on light steel outriggers. Curving walls of local materials hide the service areas and avenues of trees and landscaped courts furnish the architecture, turning it all into one generous green landscape.

Edward Cullinan's other building is

the remarkable international headquarters of the sand and gravel company, RMC Group plc. The brief was to provide offices on a difficult green belt site that was already partly occupied by three domestic buildings, one of them a listed Georgian house, with lakes and landscaped gardens providing the setting. The architects have been ingenious almost to a fault in the skillful way they have turned the new offices into an entertaining extension of the landscaped garden. Miraculously, three and a half thousand square metres of office space has been provided as well as a swimming pool, restaurants, lecture room and TV studio. The older buildings have either been restored or extended and they now turn their faces to the newly created "office gardens" - much of it on the roofs of the new buildings.

A football stadium, an important new London office block and an unusual conversion of some London Edwardian offices made up the remainder of this year's short list. When the creative agency Imaginatio Limited commissioned Ron Heron Associates to convert some early 20th century buildings in Bloomsbury it wanted something unusual. It got it in the form of a brilliantly tented atrium court that links two buildings. Six storeys high, this top lit court

spanned by bridges is one of the most exciting new spaces in London.

The football and athletics stadium in Sheffield's Don Valley was erected as part of the regeneration programme by the Design and Build service of Sheffield City Council. This too has Telford stretched fabric roofs like the imagination atrium - a material that gives plenty of scope for swooping shapes geometric drama. This is a thrilling stadium, although its details do not quite reach high tech perfection.

At Exchange House in the Broadgate development close to the City of London, the American architects Skidmore Owings and Merrill attempted a tour de force of engineering above the Liverpool Street railway tracks. The building, in effect, spans the site like a bridge; the exposed parabolic arch on the sides of the building suggests railway engineering. Alas, to economise, it has been cut in segments and so lacks the real curved elegance of a genuine parabola. It is the beautifully landscaped Exchange Square that is the most positive addition to the development, where a giant, naked woman by the sculptor Botero voluptuously overwhelms the whole development. She is a prize winner in her own right.

Colin Amery

Carluccio and the Queen of Hearts

HAMPSTEAD THEATRE

"King Charles III of England", Bonnie Prince Charlie to history and Carluccio to his very young wife, had a soft landing. He ended his days in a Florentine palazzo, decomposing, deshabillé, and drugged by wine, slumped immobile in his chair just like a resident of a contemporary sunset home.

His wife, known with reason to the local roads as the Queen of Hearts, perpetually complained about the boring domestic evenings without company - no guests would call because the Queen of England could not possibly make visits in return.

A play about tedium can be trying for an audience, and

marital problems, Mary, Queen of Scots. By the interval dialogue was comfortably trouncing drama.

But gradually the bright idea of portraying one of the great romantic heroes in anonymous decline, an embarrassment to his servants, the local Grand Duke, and to himself as he pukes his way into oblivion, shows its merit.

Charles's regal delusions remain intact - he has a pact with the street beggars who let him touch them for the King's Evil in return for a tip - and David Kincaid conveys the majesty and dormant authority behind the gross exterior. Sympathy switches from Ellilid Fraser's regal, capped Queen and her lover on the make (Alexander West) to the cuckolded King, and when the action does explode it is with sudden violence.

There is a sub plot involving Sir Horace Mann (Robin Thom-

son) as a camp local British envoy who keeps official tabs on the King's decline on behalf of George III, with the help of a secretary (Steven McNicol) who has a nice bit in south Yorkshire accents. You feel their relationship is more interesting than that between the Queen of Hearts and the "King of Farts".

Both the set and the direction, by Sandy Nielson, who on press night stepped in suavely for an indisposed actor as the King's loyal servant, are sparse. The Scottish accents and the obsession with Scotland's past make this a natural choice for a Festival hit, but there is enough quirky charm around to justify its transfer. Not least the clothes, which are hit and miss 18th century. Fraser in particular flourishes around in Dr Scholl shoes, knickerbockers, and wielding a lavatory brush. All in all an oddball play about an oddball monarch.

Jenufa

GLYNDEBOURNE

Janáček's *Jenufa*, the third opera in Glyndebourne Touring Opera's season this year, is the well remembered 1908 festival production by Nikolaus Lehnhoff, who has personally supervised the revival.

Those who know *Jenufa* will need no prompting. Those who don't and live in the areas to be visited now have the opportunity of seeing a loud, vital staging of one of the finest and most gripping operas written at the turn of the century.

It is, I hasten to say, well worth a more than local journey. The performance is given, with superlatives, in the form of a brilliantly tented atrium court that links two buildings. Six storeys high, this top lit court

water mill setting looked at times uncomfortably crowded by villagers seemingly afflicted by an epidemic of St. Vitus's dance - something to do with the water supply? The jerky, expressionist-style movements did not sit altogether happily on even the expert Glyndebourne chorus.

Not until the following act did conductor Graeme Jenkins and the GTO orchestra reach the point where Janáček's broken lines and stabbling colours suddenly make complete sense.

After the interval, all went well. Susan Bullock's *Jenufa* is a rounded, moving, credible portrait. I admired the integrity and intensity of Susan Bullock's *Jenufa*, in feature so like her foster daughter *Jenufa* that one might have

thought her the real mother.

The resemblance extended to vocal colour - more contrast would make their scenes together even more moving. The new Kostelnicka is completely independent from her unforgettable predecessor Anja Silja.

Except for his too fidgety behaviour at the beginning of the opera, Kim Begley's faithful Laca is as good as any I have seen. Step-brother Steva, the eldest of *Jenufa*'s trouble, is understandably overshadowed, but Christopher Venris effectively conveyed the character's belated remorse.

The miserably unhappy wedding breakfast in the last act is superbly done.

Ronald Crichton

Choreartium

BIRMINGHAM HIPPODROME

Leonid Massine's symphonic ballets were considered pinnacles of the dance during the 1930s. Massine was the embodiment of that new creativity in the revived Ballets Russes which had assumed the mantle of Diaghilev's company. The arrival of the Ballets Russes in London in 1933 was ecstatically received. After the four bleak years since Diaghilev's death, here again was the glamour and excitement of "Russian ballet", and what more thrilling in a thrilling season (extended from three weeks to four months) than Massine's *Les Présages*, set to Chaikovsky's fifth symphony, and *Choreartium*, created during the season to Brahms' fourth symphony?

Ballets set to symphonic music were not new; immediate precursors were Alexander Gorsky's realisation of Giazunov's fifth symphony in Moscow in 1915, and Fedor Lopukhov's *Magnificence of the Czech* produced in Petrograd in 1923, which used Beethoven's fourth. But it was Massine who was to become identified with the idea of "symphonic ballet", and between 1933 and 1938, *Les Présages*, *Choreartium*, *Symphonic Fantastique* (Berlioz), *Seventh Symphony* (Beethoven) and *Rouge et Noir* (Shostakovich) were among the chief choreographic landmarks of the age for a devoted audience.

The vagaries of public taste, war, and the fading of the Ballets Russes in the face of emergent national ensembles, brought oblivion to much of Massine's work, and especially these symphonic creations which were so essentially of their time in dramatic response to their music. A revival in Massine's fortunes - long overdue - was signalled when, three years ago, the Paris Opera invited Tatiana Leskova, a leading dancer with the Ballets Russes, to produce *Les Présages*. Mme Leskova's prodigious memory, and her skill in teaching Massinian style to artists very different in training and temperament from those for whom the work was conceived, made the Opera revivals a grand re-statement of *Les Présages*' significance.

Now Peter Wright has brought Mme Leskova to restore *Choreartium* to the stage for Birmingham Royal Ballet. The result is fascinating, entirely convincing, which a post-war revival, thirty years ago, was not. The one significant change is that Nadine Baylis has created beautiful and sympathetic new sets and costumes (though these latter are inspired by the originals). The 1933 decorations by Terekhovitch and Lortie were not greatly admired. (Irina Baronova, a member of *Choreartium*'s first and glorious cast, told me that the ballet never looked better than at a preview when it was given in practice dress). Miss Baylis has made four act drops that are washes of colour most happily responsive to the atmosphere of Massine's choreography.

Clement Crisp

Thelonious Monk Institute's competition

The Thelonious Monk Institute of Jazz in Washington DC in the United States has announced its fifth annual instrumental competition, this year featuring the saxophone. It is open to all saxophonists under 36 years old who plan to pursue jazz music as a career and who have never

recorded commercially as a leader with a big record label. Scholarship prizes are first place \$10,000 (Ford Motor Company); \$5,000 for second place, (sponsored by the Junior Beethoven Society) and \$3,000 for third place (sponsored by the United Black Fund).

INTERNATIONAL ARTS GUIDE TODAY'S EVENTS

ATHENS

Concert Hall 20.30 Monteverdi's *Il Rincorno d'Ulisse* in Patris, in a production by Capriccio Stravaganza conducted by Skip Sempe and staged by Victor Arditis. Repeated on Wed, Thurs and Fri (722 5511)

BERLIN

MUSIC Schauspielhaus 20.00 Milan Horvat conducts the Berlin Symphony Orchestra in Haydn's Symphony No 73, Mussorgsky's Pictures from an Exhibition and Pfitzner's Cello Concerto, with Gerhard Mantel. Tomorrow and Wed: James Levine conducts the Berlin Philharmonic. Thurs: Orchestra of the Berlin Musikhochschule (East Berlin 2272 261)

Philharmonie Kammermusiksaal 20.00 Brass ensembles of the Berlin Philharmonic. Tomorrow: Deutsche Kammerphilharmonie plays Mozart, Beethoven and Brahms. Wed: Shure Cherkassky recital (West Berlin 2614 333)

THEATRE

East Berlin: at the Berliner Ensemble on Sat, the Ki-Yi Mbock Theatre group from West Africa

presents a French-language performance entitled *Singue Mure*, about a girl who breaks free from the role expected of women in a tradition-bound society. This week's repertoire also includes The Three-penny Opera tonight, The Caucasian Chalk Circle tomorrow, Schwyg on Wed and The Good Person of Szechuan on Thurs and Sun (2027 712).

The Deutsches Theater has a new single-evening adaptation of Shakespeare's Henry VI tomorrow at the Kammerkassale (2871 226). The Volksbühne is showing Shakespeare's The Comedy of Errors tomorrow and Sun, and Schiller's Die Räuber on Thurs (2082 748). The Maxim Gorki Theater has Athol Fugard's The Way to Mecca on Fri and Caryl Churchill's Top Girls on Sat (2082 783).

West Berlin: the Schaubühne has Arthur Schnitzler's The Lonely Road tonight, Kleist's Amphitryon on Wed, Fri and Sat, and Luc Bondy's production of The Winter's Tale on Sun (890023). The Schiller Theater has Goethe's Iphigenie auf Tauris tonight, followed tomorrow by Liebe Macht Tod. Thomas Brasch's modern adaptation of the Romeo and Juliet story. Lessing's Minna von Barnheim can be seen on Fri and Goethe's Faust on Sat (3195 236).

BOLOGNA

Teatro Comunale 21.00 Giuseppe

Haydn and Wolf, with Jean-Philippe Collard soloist in Mozart's Piano Concerto No 23 (529999)

BRUSSELS

Patate des Beaux Arts 20.00 Armin Jordan conducts the Orchestre de la Suisse Romande in Frank Martin's Concerto for seven wind instruments, Beethoven's Third Piano Concerto with Radu Lupu and Stravinsky's The Rite of Spring. Wed: piano recital by Nikita Magaloff (507 8200). Tomorrow in the Monnaie: the fourth and final cycle of the Brussels Ring opens with Das Rheingold conducted by Sylvain Cambiagio, with Die Walküre on Wed, Siegfried on Fri and Götterdämmerung on Sun (219 8341)

COLOGNE

Philharmonie 20.00 Virtuosi di Rome in a programme of baroque music for chamber orchestra. Tomorrow: Wynton Marsalis and Friends. Wed: Chris Barber Jazz Band. Thurs: Mendelssohn's Elijah. Fri: Requiem by Salieri and Mozart. Sat: Yehudi Menuhin conducts the Berlin Staatskapelle. Sun: Kurt Masur conducts the Leipzig Gewandhaus Orchestra in Beethoven's Sixth and Seventh Symphonies (2801)

Opernhaus On Friday, the Cologne Opera gives the German premiere of York Höller's opera Der Meister und Margerita (further performances on Nov 6, 9, 14, 19, 23 and 27). Lothar Zagrosek conducts Friedrich Meyer-Oertel's new staging. This week's programme also includes a Lied recital by Anna Tomowa-Sintow tomorrow, L'elisir

d'amore on Wed, Sat and Sun (221 9400)

LONDON

Royal Festival Hall 19.30 A programme of jazz classics with Kenny Ball and his Jazzmen, Acker Bilk and his Paramount Jazz Band and Humphrey Lyttelton and his Band, plus special guests.

Tomorrow: Kyung-Wha Chung plays Mozart's Violin Concerto in A K219. Wed: Luciano Berio conducts the Philharmonia. Thurs: Pollini plays Mozart with Ashkenazy and the RPO. Fri: Armin Jordan conducts the Orchestre de la Suisse Romande. Sun: Rostropovich conducts Prokofiev (071-828 8800)

Barbican 19.45 Leon Lovett conducts the English Concert Orchestra and London Oriana Choir in Mendelssohn's Elijah, with soloists including Neil Mackie, Sarah Walker and Benjamin Luxon. Tomorrow: Armin Jordan conducts the Orchestre de la Suisse Romande. Wed: Jeffrey Tate conducts Mozart, with soloists Cecilia Bartoli and Andreas Schiff. Thurs: Paavo Berglund conducts the LSO. Fri: Rattle conducts Henze's Seventh Symphony (071-638 8891)

NEW YORK

THEATRE The New York Public Theater opens its 1991-2 season tomorrow with Brecht's *Jungle of Cities*, directed by Anne Bogart (runs till Nov 24). Pericles, Shakespeare's rarely-played romance, opens on Nov 5, and the season has six other productions, including Lorca's Blood Wedding and a

two-week festival of solo performance pieces. Advance booking is well advised (inquiries to New York Shakespeare Festival, 425 Lafayette St, 598 7150)

MUSIC Metropolitan Opera 20.00 Luciano Pavarotti heads the cast in John Copley's new production of L'elisir d'amore. Tomorrow: La fanciulla del West with Plácido Domingo. Wed end Sat: Die Zauberflöte. Thurs: Aida. Fri: tin ballo in maschera (352 6000)

STOCKHOLM

On Saturday, the Royal Opera presents the world premiere of Daniel Bort's new opera The Bacchantes. In a production by Ingemar Bergman. This is only the third time that the distinguished Swedish director has staged an opera. The Bacchantes is closely based on the original Greek tragedy by Euripides, and will be sung in Swedish. The production runs till December 13. The Royal Opera's repertoire this week also includes *Die Zauberflöte* tonight and Wed, plus Einführung tomorrow end Fri (248240). At the Berwald Hall on Wed, Kjell Seim conducts a lunchtime concert of Rossini and Mozart with the Swedish Radio Symphony Orchestra (784 1800). At the Konserthuset the same evening, Gennady Rozhdenskiy conducts the Stockholm Philharmonic in a Berlioz programme (244130)

VIENNA

MUSIC Staatsoper 20.00 La fille mal gardée. Tomorrow: La nozze di Figaro. Wed and Sat: Rusalka.

Thurs: Il barbiere di Siviglia. Fri and Sun: Persifal (51444 2960) Musikverein 19.30 Marjana Lipovsek, accompanied by Geoffrey Parsons, sings *Lieder* by Schubert and Brahms. Wed, Fri and Sun at 11.00 Claudio Abbado conducts Verdi's Requiem with the Vienna Philharmonic Orchestra and State Opera Chorus (505 8190) Konzerthaus 19.30 Lieder recital by Josef Protschka, accompanied by Hans Dieter Freyer. Tomorrow: Julian Bream recital. Thurs: Heinz Holliger is conductor and oboe soloist with the Vienna Chamber Orchestra (7124 6880)

THEATRE This week's repertoire at the Burgtheater includes The Merchant of Venice tonight and Cesars Lievi's new production of Waiting for Godot on Wed and Thurs. The Akademietheater has Hans Hollmann's production of Botho Strauss' Schlusschor on Wed and Thurs (51444 2218)

ZURICH

Opernhaus 20.30 Alban Berg Quartet plays string quartets by Mozart, Janáček and Brahms. Wed: Die Zauberflöte with Lucia Popp as Pamina. Thurs: Il barbiere di Siviglia. Fri: Msra Zampieri sings Tosca. Sun: Der Rosenkavalier with Montserrat Cabellé as the Marschallin (251 0908) Tonhalle 19.30 Piano recital by Sirri Schütz, with music by Bach, Berg, Beethoven and Chopin. Wed: Walter Weller conducts the Tonhalle Orchestra in symphonies by Mozart and Owrak. Thurs: Wolfgang Holzmair sings Barber's Dover Beach, with the Quotvor Sine Nomina (201 1580)

European Cable and Satellite Business TV

(all times CET)

MONDAY TO FRIDAY Eurosport 0600-0630 International Business Report CNN 0900-0930 Moneyline 0930-1000 CNN Moneyline 1200-1300 CNN Market Watch 1300-1400 Business Day 2000-2030 World Business Today - a joint FT/CNN production with a review of the day's major business stories with Grant Perry and Colin Chapman

2200-2330 World Business Today 0700-0730 Moneyline Superchannel 2200 - 2250 (Wed) Financial Times Business Weekly - the latest roundup of business news with James Bellini and Debbie Middleton. (0500-2030 (Thurs) Financial Times Business Weekly

Sky News 1200 - International Business Report 2130 (Thurs) Financial Times Business Weekly

SATURDAY

CNN 0900-0930 Moneyline 0900-0930 World Business Today - a joint FT/CNN production 1200-1300 CNN Market Watch 1300-1400 Business Day 2000-2030 World Business Today - a joint FT/CNN production with a review of the day's major business stories with Grant Perry and Colin Chapman

SUNDAY

Superchannel 1800-1830 FT Business Weekly 1830-2000 FT Business Weekly 2000-2030 FT Business Weekly Sky News 1000-1100 FT Business Weekly CNN 0710-0740 Moneyline 0740-0810 Your Money 1000-1040 Moneyweek 0040-0110 Inside Business

Monday October 28 1991

The hard road to peace

IT IS all too predictable, and vocally obvious, that the parties due to participate on Wednesday at the opening of the Middle East peace conference in Madrid have deeply opposed objectives born out of the bitter experience of the past four decades. No one outside the region can have any justification for expecting quick progress or easy compromises on the road to a solution.

But Israel and its Arab negotiating partners must also be aware that the international political climate has changed emphatically in the past few years and the world community, headed by the co-sponsors of the Madrid conference, the US and the Soviet Union, has every right to expect them to make a serious commitment towards finding a durable settlement. The chronic instability of the Middle East has demonstrated again this year the extent to which it poses a threat well beyond the region. The lines of a settlement need equally to be based on the broadest measure of international acceptance which will in turn be the best guarantee that any agreement will be adhered to. The starting point therefore has to be UN resolutions 242 and 338 which were adopted after the 1967 and 1973 wars respectively and which endorse the principle of exchanging occupied territory for peace and recognition.

It is absurd for the present Israeli leadership to insist that it has already fulfilled that requirement by returning the Sinai to Egypt as part of the 1979 peace treaty between the two countries. Rather, that treaty should be primarily viewed as an important precedent, demonstrating that an Arab-Israeli settlement can be negotiated, land returned, and a peace sustained for more than a decade.

Vital concern

The vital concern for Israel in Madrid should be to start exploring fully whether countries such as Syria and Jordan have now reached the point at which they are prepared to follow in substance, if not in style, the example set by President Anwar Sadat of Egypt.

By agreeing to attend the Madrid conference the Arab countries and, though not for-

mally represented, the Palestine Liberation Organisation, seem to be saying they are ready to strike a deal along the lines of the two UN resolutions. If that is the case, a huge step forward will have been taken. The role for the US, the Soviet Union and the European Community would then be to find ways of answering Israel's concerns over the dangers of relinquishing territory.

Palestinian autonomy

Such risks involve the future status of the Palestinian people now living under Israeli occupation in the West Bank and Gaza, military security, vital questions such as water supply, and future regional economic relationships. Whatever Israel's sensitivities to PLO representation, no arrangement will prove durable without some form of autonomy for the Palestinians which at least holds the prospect of eventual self-determination.

It is a forbidding list of obstacles but one which an increasing number of governments believe can be resolved. They are heartened by the peace treaty signed by the Cambodian factions in Paris last week. That conflict seemed scarcely less intractable, yet as each hurdle was overcome the next seemed less insurmountable. In the end it took a commitment by the UN to launch its biggest peace-keeping operation, including the transitional administration of most of Cambodia, to achieve an agreement.

The commitment from the international community will have to be no less for the Middle East. It will be important that President Bush in Madrid gives some indication of the assistance the US might be willing to provide, in particular on security guarantees. Having expended such effort to get to the start of a peace process, the US and other western nations will not look kindly on total intransigence and a refusal to negotiate on the key issues. The Madrid conference has to be viewed as the best opportunity for many years to begin a process which, in substance, if not in style, the example set by President Anwar Sadat of Egypt.

By agreeing to attend the Madrid conference the Arab countries and, though not for-

unrealistically low PSBR targets it has made things appear much more than they really are. The Budget projection for spending on unemployment benefits, for example, was based on last autumn's actuarial projection that unemployment would average 1.7m over the next two years. This estimate was out of date even before the Budget. Unemployment is now 2.5m and rising.

Discretionary spending

The overshoot, in addition to the depth of the recession, also reflects a rise in discretionary spending on health, railways and the public sector. Yet it is too soon to claim that the government is losing control over public spending. The ratio of government spending to GDP (excluding privatisation receipts) will rise to 40 per cent in 1990-91 and 41 per cent in 1991-92, 3 percentage points higher than in 1989-90, but still lower than at any time in the entire 1972-1987 period.

Yet this rise in spending will probably turn out to be inconsistent with a balanced budget over the entire economic cycle. The outcome will depend on how fast the economy recovers. But the UK could well face several years of slow growth, low profits and sluggish income growth alongside demands for higher spending on health, education and transport.

Given these constraints it makes more sense for the government to stabilise the ratio of gross outstanding public debt to GDP over the cycle, enabling it to remain a net borrower. This debt ratio has already fallen to 36 per cent last year from 54.7 per cent in 1984 and is much lower than the OECD average of 58.3 per cent. There is no pressing need to reduce it further.

In any case there will be little room for pre-election fine-tuning before next June. If fiscal policy could predictably be used to speed the recovery, which it cannot, it is almost certainly too late.

Nor is the government likely to risk tax cuts that are financed by higher borrowing. After 12 years of austere rhetoric they would appear not just as bribes but financially reckless ones. The electorate would be confused. But the Labour party would have a field-day.

Nervous markets

The markets are nervous in part because the PSBR is rising much more rapidly than was forecast in this year's Budget. The PSBR is already 35 per cent ahead of its £50bn target for the entire financial year. It is expected to reach £20bn in 1992-93, a substantial £28bn above target.

Here, the government is its own worst enemy. By picking

President François Mitterrand is in trouble. His government has been beset by a succession of rolling protest demonstrations, from farmers, nurses and public service employees. With the farmers, the police seemed incapable of preventing quite serious violence; and yet they made the grave political error of inflicting their own violence on a peaceful demonstration of striking nurses. It has sometimes looked as if social protest was getting seriously out of control.

These problems have accelerated the downward slide in popularity of the prime minister, Mrs Edith Cresson. She was well received by public opinion when she was appointed a mere five months ago; but she has now sunk lower in the opinion polls than any French premier for more than 10 years.

The outlook for the government is therefore rather grim. The ruling socialists will probably do badly in regional elections next spring, and on current assumptions can expect an even worse defeat in general elections a year later.

The conventional wisdom, especially on the right, interprets this situation as the natural consequence of three converging factors: first, President Mitterrand is no longer young, and 10 years in office have used up his credit and his powers; second, the socialists failed to take full advantage of the fat years of 1983-90, and now they are paying for the lean years of 1981-82; third, President Mitterrand's appointment of Mrs Cresson has so tightened his identification with every detail of government that he cannot avoid being branded by the government's failures.

The trouble with the conventional wisdom is that it is altogether too basic, on at least three counts. It crudely oversimplifies the Mitterrand factor, and it ignores two systemic questions which are much more fundamental.

● Is this a temporary political storm that we are seeing, or is it really a structural and constitutional storm?

● How much of this domestic French storm is being blown up by the appeal of the all-important European Treaty summit at Maastricht in December?

First, the Mitterrand factor. There is absolutely no sign that he is worn out or losing his intellectual touch; in his public appearances he is as lively as a cricket, and by all accounts he thoroughly enjoys his job.

His critics charge that he betrays instinctive errors of judgment, in his apparent acquiescence in the abortive Moscow coup in August. Yet his agnosticism was not very different from that of some other western leaders, who have not been accused of being Gags.

A more valid criticism is that he enjoys his job too much, and muddles in many issues which should be handled by his government. Last week he seemed to have defused the confrontation with the farmers, first by loudly threatening a stick of law and order, and then by offering (more discreetly) a carrot of various concessions on taxes and pensions. But in a well-run system, the president of France

Ian Davidson on the constitutional problems facing Mitterrand A system's malaise



ought not to have to run the country single-handedly, even if he enjoys doing so.

In any case, whatever one thinks of President Mitterrand's recent score-card, it would be deeply unsafe to write him off. He is a daunting political operator with a daunting intellect, and he has the resources of the French state at his command; and that is a powerful combination. His situation is difficult, and may well get worse. But he is not finished yet, not by a long way.

The question of whether the current storm is a constitutional issue is rather harder to size up. When President Mitterrand suggests the desirability of a more proportional voting system, he immediately provokes a chorus of indignation from the opposition. The president says he only wants a system that would be fairer; but the opposition instinctively assumes that his real motive is disreputable gerrymandering.

The opposition may have a point. In 1985, when the socialists were facing defeat in the 1986 elections, the government went over to a proportional voting system - a change that was reversed by the victorious Gaullist government. Mr Mitterrand's main objective then was obviously to limit socialist losses - even though it opened the door to 35 members of the extreme rightwing

National Front.

Over the years, however, there has been a growing sense that the whole system is suffering from a serious malaise and needs structural reforms. There is no consensus on what those reforms should be, but the subject of constitutional reform is very much in the air.

One indication of the malaise is the steep slump in the reputation of the political class as a whole. This is partly a result of the long-running scandal over illicit methods of party financing, in which the socialists were most deeply implicated.

But there seems to be a deeper alienation from a system which has been built on the outdated left-right dialectic of class warfare. The voters are deserting the traditional parties, because they are losing interest in the old ideologies; the cold war is over. In economic policy, says a recent poll, 56 per cent of voters see little or no difference between left and right, and 80 per cent see none over unemployment.

But there is a more serious structural problem, in the apparently inexorable increase in the power of the presidency, and the corresponding decline in the influence of the National Assembly, foreign policy and defence have always, by tradition, been the president's prerogative; but under President

Mitterrand, more and more of the government's agenda seems to be actively decided by the Elysée, and this trend has been accentuated since the appointment of Mrs Cresson.

Meanwhile, the National Assembly plays less and less of a role in controlling or influencing government policy. The Socialist government does not have a majority in the Assembly, but it can still ram its legislation through without a vote, by challenging the opposition to table a censure motion. Inevitably, debates are very sparsely attended.

The overwhelming power of the presidency means that the entire political system is obsessed by the next presidential election, even though this is still nearly four years away. The factions of the Socialist party are tearing each other to bits over the Mitterrand inheritance.

The two leaders of the opposition conservative parties are engaged in a parallel struggle to get out in front and in the process they are both lurching to the right in pursuit of the votes of the National Front, whose ideas are apparently approved of by an astonishing 32 per cent of the population.

Yet a classic left-right struggle for the presidential elections of 1995 may look entirely at odds with the result of the general elections in 1983. Polls suggest the conservatives should defeat the socialists by a large majority. Yet if one adds up the likely abstention rate (say, 35 per cent), the ecologists (10-15 per cent), and the National Front (say, 15 per cent), it is possible that all the mainstream parties between them could represent less than half the electorate.

This would be a classic recipe for further alienation by the disenfranchised, for extra-parliamentary disturbances and instability, and for a further trend towards an unbridled presidency.

The solutions offered by Mr Jacques Chirac, leader of the Gaullists, include a shortening of the presidential term from seven to five years and an increase in the use of popular referenda. But others, including the editor of the newspaper *Le Monde*, urge a shift to proportional representation, as a way to overcome left-right polarisation, secure parliamentary representation which more closely reflects the electorate, and create the possibility of moderate government majority near the centre.

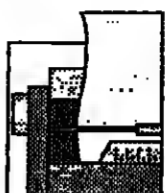
It is not clear if there would be a parliamentary majority for any such reform; a great deal will depend on how France reacts to the prospect of the quasi-federal European Treaty coming up for signature at Maastricht. As things are now, President Mitterrand probably has a ready-made parliamentary majority to ratify it next year, even if the communists and the Gaullists vote no.

But the position could look quite different a year from now, if the structural flaws of the system are not fixed. If the Gaullists and centre-right UDP parties are still chasing hard after the votes of the National Front, in the run-up to the general elections of 1993, France could be facing the prospect of a rightwing government that was anti-immigrant, anti-European and unrepresentative.

PERSONAL VIEW

The cost of equal pensions

By Bryn Davies



The last thing UK employers want at present is £50bn worth of extra pension liabilities. Reports of the cost of implementing the European Court's judgment in the Barber case have therefore caused real concern. The judgment laid down that pensions are pay and that Article 119 of the Treaty of Rome, which says the pay of men and women should be equal, also applies to pensions. A whole range of estimates has been made of the cost of bringing UK occupational pension schemes into line with the judgment. Last February the consultants Noble Lowndes said it would cost up to £50bn. In June Mr Tony Newton, the social security secretary, said it could be "... as much as £40bn to £50bn..." Last week the Confederation of British Industry published a report which suggested a cost between £11bn and £36bn. The lowest figure has been my own estimate of £10bn.

There are two main reasons for the uncertainty:

● First, there is confusion about what the Barber judgment actually requires;

● Second, the global estimates inevitably involve a lot of guesswork.

Some confusion is caused by ambiguity in the judgment. But much of the confusion appears to be self-inflicted, with the aim of making the judgment appear to be more difficult to implement than it really is. The only point which is in doubt is whether the benefits for members who retire after May 17 1990 - the date of the judgment - have to be equal for all years of service, or only for years of service after that date.

But opponents of equalisation have seized upon this uncertainty and magnified it out of all proportion. They have muddled the waters by jumping to the illogical conclusion that if the judgment can have more than one interpretation then maybe it can have three or four.

Opponents say that those already receiving pensions will have to have them equalised, although this falls outside any reasonable interpretation of the judgment. They then drag not only the cost of such equalisation into the discussion, but also arguments about how it would be impossible to administer. The result is to exaggerate the problems.

If we ignore these diversionary tactics the cost of implementing the judgment is much lower than most of the figures quoted above. For example, the CBI's figure on a realistic interpretation is £11bn-£19bn, the range including liabilities for prior years' service for members retiring after May 17

1990. And there are no administrative complexities. But even if we agree on what the judgment requires, there is still scope for a wide range of estimates of the cost. This is partly because there is little up-to-date information about what benefits schemes provide or the extent of their current liabilities. So crude estimates have to be made of the total liabilities of those schemes which still need to equalise their benefits.

The other reason for a range of estimates is that actuarial methods are not good at producing such figures. Actuaries produce only an approximate figure for the expected cost of a scheme taken as a whole if the cost of individual items within the total has to be singled out, the answer becomes even more approximate.

The CBI has tried to estimate - in a survey carried out in June - the average increase in a scheme's liabilities when its benefits are equalised. Unfortunately only a third of those asked replied with usable information and many of the answers were produced very quickly. As a result there is the strong possibility of a bias in their data, as those who did reply may have been spurred to do so because they faced higher-than-average costs. Employers also suffer from a tendency to quote a higher cost for scheme improvements when they do not want to make them.

It is not surprising that the CBI's figures for the cost of equalising benefits are higher than mine. My estimates are obtained by detailed modelling of the cost increase in a cross-section of schemes with a typical range of benefits. As a result my global estimates are generally less than those of the CBI, falling within the range of £6bn-£12bn. This does, however, overlap with the CBI's figures, so perhaps a figure somewhere in the middle could be agreed.

Whether we take my figure, or the CBI's, much of the cost will be offset by the existing surplus in many of the schemes concerned. I estimate this would exceed £5bn. Even the cost which remains does not have to be met all at once. It can be spread forward, increasing total pension costs by up to £600m a year. This is about 1 per cent of the pensionable payroll of the employers concerned or 0.5 per cent of their total payroll costs.

There is no doubt that implementing the judgment involves a large extra cost for the employers concerned. But even allowing for the increased cost of providing pensions in the future, it does not appear to be the insuperable burden that opponents claim.

The author is a director and actuary with Union Pension Services.

A Pole from the past

Minutes before Polish prime minister Jan Krzysztof Bielecki cast his vote in yesterday's first free parliamentary elections for over 50 years, he was preceded into the polling booth by a portly figure from the communist past.

It was Stanislaw Kania, former head of the secret police. He took over in 1980 after Edward Gierek's corrupt and incompetent regime was brought down by a fiery young shipyard electrician called Lech Walesa.

Kania, the secret policeman, proved no more capable of running Poland than his predecessor. He was soon replaced by Wojciech Jaruzelski, the four communist army general with sinister dark glasses - best remembered for the thousands of Solidarity activists he had arrested.

Eight years later, the Solidarity tortoise triumphed over the military hare. But the communists hung on to 66 per cent of the seats in the lower house of parliament. It is this guaranteed communist presence that yesterday's elections were largely called to eliminate.

But Kania's appearance at the polling station close to the presidential palace - a wealthy neighbourhood favoured by former communist party bosses - is a reminder that ridding the country of communists is not going to be easy.

Ironically, in Bielecki's own constituency his Liberal Congress party is likely to be overwhelmed by the neo-communist "left alliance" of Wlodzimierz Cimoszewicz.

One more spin

Are some of Britain's lucky ITV companies, which bid big money to retain their franchises, having second thoughts now that the celebrations are over? It would be surprising if they were not.

OBSERVER

The winners have six weeks to confirm whether they want their new licences, or indeed whether shareholders will support the bids.

What if, shrewd voices say, a winning company were to take a financial interest in an underbidder that nonetheless passed the quality test? The winner could then refuse the licence and the Independent Television Commission would have to go to the second highest bidder.

In the case of the Yorkshire franchise, for instance, many millions could be saved. Yorkshire Television was the underbidder with an enormous £37.7m bid. While Rose got over the quality threshold but only bid £17.4m. Could Yorkshire assume the mantle of White Rose and save more than £20m a year?

It all sounds rather plausible, but is anyone prepared to take the risk?

Marketing fizz

If the British Government needs an independent expert to support its much criticised intervention in the UK brewing industry, it should give Harry Drac a call.

Drac (pronounced "Der-nak"), who learnt his business at US beer giant Anheuser-Busch, believes that the recent radical changes have made it much easier for an outsider like him to break into the UK beer trade.

Tonight, he launches his latest US Import, Miller Genuine Draft, onto Britain's unsuspecting taste buds. Having seen sales of his imported Mexican Sol bottled beer explode from 83,000 cases two years ago, to 2m in the current year, Drac is confident that MGD, the number two in the US market, will do even better. "People will be drinking less, but they are drinking better," says the 45-year-old marketing man.



"Well, at Saturday's car-boot sale we sold the car."

Despite a severe recession and a declining beer market, demand for imported beers is spilling out of the wine bars and trendy restaurants, and into the high volume pubs. Under the old regime it would have been "very difficult to crack the brewers' barriers" says Drac, noting that he now sells Sol to close to three quarters of the UK's brewers.

Out of order

Once again it seems to be open season for BT-bashing and Observer would hate to miss the chance of a few more cheap shots at one of corporate Britain's most attractive sitting ducks.

When you run a high-profile monopoly making profits of over £3bn a year, fat executive salaries are a natural target, especially when the bulk of a shrinking workforce is having to make do with far more modest pay rises.

But whatever the merits of chairman Iain Vallance's latest pay increase - and it will be

interesting to see whether it means he has sacrificed his chances of a knighthood - Observer feels duty bound to dismiss one entertaining rumour. The plan-loving BT chairman has not insisted that a grand piano, or even a honky-tonk, be installed in his hotel bedrooms on the forthcoming round-the-world road show to promote the BT II share sale.

Sounding faintly disgusted, one of Vallance's aides said yesterday that any such suggestion was "so far from reality that it was extraordinary."

Lost for words

For a politician who bills himself as an internationalist - the man to lead Japan through turbulent times in world affairs - Kichii Miyazawa, Japan's new prime minister, has suddenly become remarkably shy about showing off his linguistic skills.

Problem is that some Japanese think Miyazawa is too internationalist and his ability to speak English fluently has become something of a political liability at home. "Speaking English here is apparently not very popular," he told a bunch of foreign correspondents at a recent English language press conference.

Fortunately, he still seems willing to slip into English when his interpreter makes a mistake in translation.

Wisecrackers

Observer's recent request for more jokes has led to a flurry of entries, but sadly most of them are either old or unprintable. The offer of a bottle of the finest malt whisky, for each one published, still stands and one will soon be heading in the direction of the Grampian Irish Social Club for its latest offering.

"Do two Irish jigs make one reel?" "No, but silly jokes do." Keep 'em coming.

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Sir Roland Smith has just lost one in a long line of unfortunate circumstances but still has 10 others. Sir Patrick Wright has picked up four since leaving the Foreign Office in June, while Sir Peter Walker and Sir Patrick Meaney are happy with half a dozen each.

Drawn from across the spectrum of industry, the Civil Service and politics, the four men have more than their knight-hoods in common: they all hold non-executive directorships in companies which value their experience, skills and contacts.

The role of non-executive directors has always been controversial, but a new era of shareholder activism - combined with a recession which has bested management skills on breaking point - has reignited the debate about Britain's boardrooms.

At present, there is not even a consensus on what non-executive directors should be called. Some companies refer to "outside" directors, others prefer "independent" but most still stick to the rather negative appellation "non-executive". However they are described, about 95 per cent of Britain's largest 600 companies now have non-executives on their boards - twice the level recorded a decade ago.

Underlying the entire debate is a public perception that many businessmen joining boards still expect to ride a gravy train rather than to help advance the cause of effective corporate governance.

Now the Committee on Financial Aspects of Corporate Governance, comprising senior industry and City figures, is drawing up its own blueprint on good business practice.

The plan is to devise clear, self-regulatory guidelines on all aspects of corporate management. It will attempt to codify the role and responsibilities of non-executive directors in a way which will command the respect of companies and of the investing institutions.

To make headway, the committee will need to examine City-style custom and practice in recruitment and deployment, in particular:

● The best approach to the appointment of independent directors, too often left to the chairman and merely rubber-stamped by those he has previously brought in.

● A system which bestows the same legal liabilities on non-executive directors as on their executive colleagues but which leaves many unclear about their responsibilities.

● The lack of "good practice" guidelines covering issues such as length of service, age and number of directorships.

Sir Adrian Cadbury, chair-



Sir James Ball: legal framework needed



Sir David Plastow: seeks mandatory retirement age



Sir Patrick Meaney: 'breadth of experience' vital

Blueprint for good boardroom practice

Michael Cassell on efforts to define the role and responsibilities of non-executive directors

man of the committee, is primarily concerned with the standard of board leadership. "Up to 80 per cent of outside appointments to the boards of large British companies are still made on the old boy network. That does not necessarily mean the lack of merit but it often does."

Ms Margaret Mowlem, Labour's City spokeswoman, agrees that too many directors hold too many posts and are still appointed by their mates or brothers, but she welcomes the wider use of non-executive directors to provide an additional element of internal accountability.

A survey by the Top Pay Research Group, which monitors directors' pay and conditions, indicates the likely scale of rewards. The going rate in Britain for non-executive directors is put at about \$15,000 a year for up to 20 days' work.

But Mr Peter Brown, Top Pay's chairman, emphasises that the most successful directors can charge up to \$1,500 a day extra if they put in additional hours.

Doubts as to whether many non-executive board members flexed their muscles - they were instrumental in toppling Sir Roland Smith at British Aerospace - critics like Sir Adrian Cadbury claim many still have no clout.

Sir Adrian, who also chairs Pepco, formed by the merger of the value of non-executive directors, says they should be recruited far more widely and subjected to a rigorous selection process. More competition for posts would improve quality.

The qualifications of some leading non-executives are nevertheless beyond question. Few shareholders would doubt the value of Sir John Harvey-Jones, former ICI chairman, Sir Colin Marshall, deputy chairman and chief executive of

British Airways, and Mr Richard Giridano, chairman and chief executive of BOC Group, all of whom serve on the board of Grand Metropolitan, the food, drink and retailing group, as non-executive directors.

Sir John, who became chairman at ICI thanks to the support of the group's non-executive directors, says his Grand Met colleagues are "a fiercely independent bunch" who have influenced the company's development.

But not all non-executives are seen in a positive light. Institutional shareholders were not impressed last month when Hanson, the acquisitive conglomerate, appointed three new non-executive directors who were seen as unlikely to wield much influence over Lord Hanson and White.

BTR, the industrial holding company, has been attacked for dragging its six non-executive board members from within its own ranks. It rejects claims they cannot, therefore, be independent, and says their backgrounds make them much more useful to the business.

However, Sir Patrick Meaney, who includes the chairmanship of Rank Organisation among his six non-executive posts, says "breadth of business experience, rather than detailed expertise, is the most important thing non-executives

can bring to the board table". There are plenty of suggestions for inclusion in any code intended to cover the activities of non-executives.

● Sir David Plastow, chairman and chief executive of Vickers - a non-executive director at Guinness when Mr Ernest Saunders was removed - says retiring executive directors should not, in the cause of vigorous management, take on non-executive posts within their own company. He wants to see a mandatory retirement age for all directors.

● Mr Keith Miles, finance director of Etam, the clothing group which has a majority of non-executive directors on its board, says there is a case for electing them for fixed periods.

● Mr Blyth Jenkins, director of corporate affairs at the Institute of Directors, supports the idea of time limits for non-executives. He is also keen on changing companies' Stock Exchange listing requirements to ensure a minimum quota of non-executives.

The IoD is not alone in pressing for the wider use of independent directors. It wants more of them on audit committees and says there is an obvious role for them in fixing the pay and conditions of executive directors. They could also have a bigger say in appointing and dismissing the board.

But despite mounting pressures to codify the role and rights of non-executives, there is widespread reluctance in the City, at Westminster and among companies to inject a prescriptive note into an area of corporate management where self-regulation has traditionally prevailed.

One voice calling for the law to help lay down clear, operating guidelines is Sir James Ball, whose three non-executive posts include the chairmanship of Legal & General.

He says the British system of unitary boards blurs executive and non-executive roles: "There has to be a separation in the processes of broad direction and of management; the two distinct roles should be enshrined in law."

Sir James does not want constitutional-style, two-tier boards. "But the law should require that independent directors form a majority and that every company has audit and remuneration committees on which they serve."

Sir Adrian Cadbury hopes his committee's recommendations - a draft report should be ready early next year - will be the catalyst for voluntary change. People like Sir James Ball are doubtful: "We need changes but I believe they will have to be imposed. Otherwise we will just carry on in the same old mess."

Samuel Brittan

TV auction outcry for wrong reasons



John Major to Margaret Thatcher: But in most cases it was for the wrong reasons.

The public outcry which greeted the recent British television franchise awards stretched all the way from John Major to Margaret Thatcher. But in most cases it was for the wrong reasons.

The defect of the allocation was not that it was a competitive auction, but that it was not competitive enough. The previous franchise holders were not entitled to a licence in perpetuity. Most of the complainants failed to grasp either the principle of due process or the principle of a fair and open price mechanism as an example of that process.

Mrs Thatcher was upset that Bruce Gynnell's TV-am lost the breakfast franchise to Sunrise. It did not require great brilliance to predict what would happen. For the supposedly new ITC is hard to distinguish

1986. One reason is that the government adopted some of the letter of the Peacock recommendations, but little of their spirit. A majority recommendation which was accepted was that there should be a competitive tender for ITV licences. The committee was emphatic that if it were decided "to award to a contractor other than the one making the highest bid it should be required to make a full, public and detailed statement of its reasons". A weaker form of this stipulation did get into the 1990 Broadcasting Act. But I knew that the British establishment would get round that. We should refuse to be bullied. The object of television and radio should be to meet (and also, of course, stimulate) public desires, not to satisfy the self-esteem of those who produce or channel programmes, still less the ideas of Reithian public figures.

Purely advertising-financed programmes are not the best way to satisfy minority or specialist preferences, which a genuine market would try to meet. The next important event in broadcasting is the allocation of the fifth terrestrial channel (which the establishment told us was technically impossible). Policymakers interested in a better-performing market would build in a preference for a subscription channel (if possible with pay per view) among bidders for the new channel. But none of the power brokers around Whitehall was interested in any such innovation.

There is indeed scope in a civilised society for the provision of programmes in the arts, sciences, humanities, news, documentaries and many other fields which cannot pay their way either by advertising or by subscription. Bodies such as BBC2 and Channel 4 exist for this very purpose; and Peacock proposed a much broader Arts Council of the Air. There is nothing, however, to support a grey in-between mess in which the BBC feels it has to compete in the mass market for pulp, while commercial entrepreneurs have to go through the motions of providing a due ration of what the regulators would regard as quality.

The way the ITC avoided giving reasons for its judgment was simplicity itself. The high bid losers were rejected either because they failed to satisfy a quality threshold (a concept not to be found in Peacock), or because the ITC did not believe that the bidder would be able to maintain (for financial reasons) the services offered. They therefore did not cross the threshold beyond which reasons would have to be given.

But I must confess that, for all its absurdities, I still prefer the pseudo-auction we have had to the unabashed discretionary awards of the former IBA. There will be some worth-

by the naked eye from the old Independent Broadcasting Authority. It still occupies the same piece of prize real estate in the Brompton Road, just opposite Harrods. Its chief executive, David Glenover, was an influential senior official in the old IBA.

The real trouble was that because of the drafting of the 1990 Broadcasting Act, or the interpretation of the Independent Television Commission, the latter body was able to award contracts to those who were not the highest bidders, without a word of explanation. There were 40 applications for 16 licences. In half of these the highest bidder did not win. The result was the bizarre spectacle of some companies losing their licences to higher bidders, while others retained theirs despite putting in a low bid. For instance, Granada Television bid £3m compared with £35.3m from Phil Redmond's North West Television.

I have kept off the subject of broadcasting for most of the time since the Peacock Committee on the subject, of which I was a member, reported in

while gains from the increase in the number of licensees acting as middlemen for the smaller independent producers, which will increase both diversity and competition. There could be a greater gain still if some of the losing applicants carried out their threat to take the ITC to court to try to force it to give reasons for its findings. But one cannot expect companies to litigate for the public good, unless it seems worthwhile commercially.

Much bumbling is spoken about broadcasting "quality", and the word "philistine" is held in reserve as a blunderbuss by the broadcasting establishment. We should refuse to be bullied. The object of television and radio should be to meet (and also, of course, stimulate) public desires, not to satisfy the self-esteem of those who produce or channel programmes, still less the ideas of Reithian public figures.

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LETTERS

Dividends just too high

From Dr Kenneth J Lyall

Sir, Lex is too kind to UK finance directors (UK tax, October 23) in allowing them the excuse of the "recession" for the build-up of unrelieved ACT balances.

Excluding companies with a large proportion of foreign earnings, surely dividends have just been too high, given the low levels of cash profits being generated.

Kenneth J Lyall, Walter Scott & Partners, Millburn Tower, Gogar, Edinburgh EH12 9BS

Conclusions incomplete

From Mr V O Vesma

Sir, As a potential beneficiary of the new government energy supply scheme, Peter Harris is brave in his criticism (Letters, October 23), but his conclusions are incomplete.

True, the Department of Energy lacks ideas. More importantly, it lacks the will to resist the lobbying of consultants and manufacturers.

V O Vesma, Vilnius Vesma & Co, 17 Church Street, Newcastle, GL8 1PU

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Protected environment provides no guarantee of economic success

From Mr Phillip Oppenheim

Sir, Graham Vance (Letters, October 23) has learned very little from post-second world war experience if he thinks that government intervention to compel British Airways to buy Rolls-Royce engines would be in either company's "long-term strategic" interests.

Giving national champions cosy, protected, guaranteed domestic markets is a recipe for complacency, not prosperity. After all, this policy was tried, without much success, up to the late 1970s. In contrast, Rolls-Royce doubled its share of world markets in the 1980s and, notwithstanding

problems currently afflicting aerospace manufacturing, the company is probably now in better shape than at any time in the post-war period.

Mr Vance's thesis that shareholder pressure prevents long-term planning may also be a little simplistic. The Dutch electronics company, Philips, has effectively been protected from its shareholders and hostile takeovers, yet its performance has been poor.

Japan's consumer electronics companies, by comparison, have succeeded not merely because they had access to non-equity capital, but more because they used their capital and organised their invest-

ments more effectively than the western ones. No, despite widespread misconceptions, have companies like Sony, Matsushita and Toshiba been sheltered by state-directed procurement. Rather, they have had to compete fiercely in the most competitive market in the world.

The British economy may have problems, but the solutions lie with reform of education, transformed attitudes to industry, and a more stable economic environment, rather than a return to quasi-interventionist policies.

Phillip Oppenheim, House of Commons, London SW1A 0AA

Case for relaxing Pep investment trust restrictions

From Mr Roger Adams

Sir, Norma Cohen's article, "Frustrated investors in Peps block to M&G" (October 22), remarked on the success of the recent launch of the M&G Income Investment Trust.

The size of this launch (£246m) dwarfed the previous largest launch of a new investment trust, that of Drayton Asia (£100.5m) in September 1989.

The success of the M&G issue is the best news for the investment trust movement for many years. Surely it is also very good news for the government's efforts in encouraging more investors to take out Personal Equity Plans?

An independent financial adviser, Mr John Spiers, is quoted in the article as claiming that "consumer demand for a relaxation in Pep investment rules is nil". Surely this is not correct. The also nonsense to say that "the secret of M&G's success reflects the fact that the group's fund management skills had not hitherto been available to those seeking investment trusts". M&G has successfully managed two split-capital investment trusts since the 1970s.

Mr Spiers should rethink his view that "most investors are perfectly happy to have only half their money in a collective

scheme". The M&G experience suggests that there is actually significant demand for a full Pep linked to a collective vehicle. If the government is really serious about encouraging more investment in Personal Equity Plans it should immediately relax the restrictions concerning investment trusts.

A full £5,000 should be allowed into investment trusts at any time and not through the anomaly of the new issue route.

Roger Adams, Mulrow Hall, Wendens Ambo, Saffron Walden, Essex CB11 4TL

UK performs badly measured by total manufacturing output

From Dr John Wells

Sir, John Harris, CBI director-general ("CBI hits lack of support for manufacturing", October 22), would be wrong to draw too much comfort from the fact that the UK's share of world manufactured exports, following several decades of decline (including a particularly sharp fall 1979-84), appears to have stabilised since the mid-1980s (though there is no evidence it has increased - at least when measured at constant prices).

The fact is, in today's world - characterised by growing inter-penetration by producers of one another's domestic market - data on world export share provide only limited information. When operating

in internationally open markets, the manufacturing performance of UK plc needs to be measured not only in terms of its ability to hold on to and even extend overseas market share, but also its capacity to retain domestic market share and withstand the competitive challenge posed by imports.

The only measure of success along both these dimensions is the behaviour of total manufacturing output - whether destined for home or overseas markets (the only two possibilities). By this measure, the UK has performed peculiarly badly over the past decade compared with its main OECD rivals.

Thus, since 1979, UK manufacturing output has risen by just 6.0 per cent (compared with the

OECD average, excluding the UK, of +34.6 per cent) - with the UK coming in 20th out of 21 OECD countries. As a result, my calculations suggest that the UK's share of total OECD manufacturing output - the true test of international comparative success - has fallen from 6.5 per cent in 1979 to just 5.2 per cent in 1991.

In fact, UK manufacturing's performance has been so dismal that the level of output reported for August 1991 was some 0.2 per cent below that for August 1979 - an unprecedented trend of zero growth over 17 years - during which, incidentally, domestic expenditure on manufactures rose by roughly 38 per cent.

In these circumstances, the ability to hold on to overseas market share may mainly reflect successful specialisation in the limited number of industrial branches where UK-based producers continue (thank God) to maintain a competitive presence in global markets: but stagnant output overall, against a background of growing domestic spending on manufactures, has inevitably entailed a rapid loss of domestic market share - and this has to be weighed in the scales, as well.

John Wells, Faculty of Economics and Politics, University of Cambridge, Austin Robinson Building, Sidgwick Avenue, Cambridge CB3 9DD

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HEWLETT
PACKARD

Exit polls suggest months of political uncertainty after first free parliamentary vote No winner emerges in Polish election

By Anthony Robinson and Christopher Bobinski in Warsaw

POLAND is likely to face weeks of political manoeuvring to form a coalition government after yesterday's first free parliamentary election. No clear winner has emerged, according to an early computer projection.

The projection, based on an exit poll, showed the Democratic Union, headed by Mr Tadeusz Mazowiecki, the former Solidarity prime minister, as the largest single party. But it was projected to have only 14.5 per cent of the total vote, giving it 76 of the 460 seats in the lower house of parliament.

The rest of the vote is scattered over the political spectrum, according to the computer projections, with former communists and their allies doing better than expected. The broad dispersion of the vote is expected to complicate formation of a coherent coalition government around an agreed political programme.

Poland's IMF-supported economic reform programme is likely to come under strong political pressure. This is because parties keen to reflate the economy and ease strains on ailing state-sector industries and on farmers are likely to control a majority of seats in the new parliament.

The former communists in the Democratic Alliance were projected to win 9.5 per cent. The communists' former allies in the countryside, the Polish Peasants' Party, were

also put on 9.5 per cent.

The pro-Solidarity Citizens' Centre Alliance was projected to win 9.5 per cent. Catholic Electoral Action, a church-backed party which supports Solidarity, was put on 9 per cent. But the Liberal Democratic Congress, headed by Mr Jan Krzysztof Bielecki, the outgoing prime minister, did worse than expected, with a projected 7.5 per cent.

The projected results reflect deep disillusionment with two years of bruising economic and social change. President Lech Walesa, who led Solidarity's challenge to communism, blamed the projected election outcome on divisions in Polish society.

Looking tense and grim, he told a television interviewer: "We could have expected this, considering that so many problems have remained unsolved. Society has become very divided."

The definitive results are not expected until tomorrow. The computer projections were based on exit polls by the German INFRAS institute at 600 of the 20,000 polling stations.

Voting got off to a slow start as rain and early winter snow discouraged potential voters. Opinion polls suggested voters were reluctant to choose the same confusing array of more than 100 parties and political groups.

Observer, Page 16



President Walesa, who can select the next prime minister, votes in Gdansk

UK may lease trains from France

By Richard Tomkins, Transport Correspondent, in London

BRITISH RAIL (BR), the state-owned railway, is planning an unprecedented venture into the French financial markets to cut the cost of acquiring part of a £100m (\$171m) fleet of freight trains.

If the UK government agrees, BR will lease the trains from French banks instead of buying them outright. Tax allowances on the deal mean it will be indirectly subsidised by French taxpayers.

The French government is unlikely to object to the scheme because the trains - 3,500 container wagons to be used for cross-Channel freight services when the Channel tunnel opens - are expected to be made in France.

At present, tough Treasury rules prevent state-owned BR from obtaining finance for investment from any source other than the UK government.

The Treasury argues that government loans are cheaper than any private sector sources of finance and it is BR's duty to borrow from the cheapest source.

Government loans, however, are strictly rationed, and with BR's internally-generated revenues badly hit by recession, the railway has been left with insufficient funds for investment.

Mr John Prescott, transport spokesman for the Labour opposition, last week said BR should be given the flexibility to buy badly-needed trains through leasing deals in the private sector. The government did not respond.

It now emerges that BR is already in detailed negotiations with the Department of Transport about the scope for increasing its financial flexibility.

BR is under particularly severe pressure on the Channel tunnel freight trains because they are to be ordered jointly with continental railways which want to arrange the purchase through a leasing deal.

The Treasury's main objection to leasing deals is that they are only cheaper than government finance if the banks which underwrite them obtain tax allowances which they would not otherwise have.

Banks get these allowances because, if they buy trains or other capital equipment, they are able to offset part of the cost against their profits for tax purposes. But the loser is the Treasury, which forgoes tax it would otherwise have received.

Under BR's plan, this objection would disappear. BR's

share of the train order would be bought by a French bank and leased to BR. Tax relief would be obtained at the French government's expense, resulting in a net saving to BR and the UK taxpayer.

The scheme would not result in an overall increase in BR's maximum permitted spending, but would improve its cashflow and release funds for urgently-needed investment in other parts of the railway.

BR would not confirm details of the scheme yesterday, but said it was "actively pursuing" the scope for changing the leasing rules with the Department of Transport.

The trains to be ordered are special small-wheeled platform wagons which will allow continental-sized containers to be carried on Britain's railway tracks, where clearances are smaller.

Mobutu rejects calls for political compromise

By Julian Ozanne in Kinshasa

PRESIDENT Mobutu Sese Seko yesterday hit out at western countries which, he said, wanted his head at any price, and rejected political compromise aimed at rescuing Zaire from chaos.

He told western journalists at his riverside residence 40km from the capital, Kinshasa, that he would stay in power. He appeared unaware of the critical situation facing the country of 35m people.

Mr Mobutu, who has ruled Zaire ruthlessly for 26 years, directed a broadside against western "threats and blackmail", saying that "nobody can dictate policy to me".

Since riots and looting began last month, France, Belgium and the US have put intense pressure on Mr Mobutu, the 61-year-old, mission-educated son of a hotel cook, to share power with the opposition. But Mr Mobutu confirmed widespread beliefs that Washington had disagreed with Paris and Brussels at a high-level meeting last Thursday, where it was proposed to send a delegation to persuade Mr Mobutu to flee Zaire.

The president's statements came hours after an explosion destroyed the offices of Elima, an opposition newspaper. The explosion, which killed several people, was blamed on the opposition. The editor accused Mr Mobutu of having ordered forces from the Special Presidential Division to carry out the bombing because of the paper's anti-Mobutu stance.

Amid signs of mounting urban terrorism between the pro- and anti-Mobutu factions, there were reports of attacks on the homes of two opposition leaders, including Mr Kengo wa Dondo, president of the Union of Independent Democrats and former prime minister.

Armed soldiers were on patrol in Kinshasa amid fears that violence could erupt again. Hugs coils of barbed wire were strung across the roads around the prime minister's office - the scene of violent clashes last week between security forces and supporters of Mr Etienne Tshisekedi, the opposition leader sacked as prime minister by Mr Mobutu eight days ago.

That decision sparked riots by Tshisekedi supporters. Fears remain that the president intends to dig in and cling to power. "Change is not," Mr Mobutu said. "The process of democratisation is not." Asked if Zaire was sliding towards civil war, he said: "I hope not, for the people's sake. That is not my impression yet."

Contrasting tales of war and peace

RONALD REAGAN won the Third World War without firing a shot, remarked an intelligent economist from Brown Brothers Harriman at its economic briefing last week (still bullish, but only just). "Still, what we have is a post-war economy."

Most dinner-table epigrams go in one ear and out the other, but this one stuck, for the 1945-1990 comparison is a fruitful one. At first sight, the similarities are quite surprising. The public finances of the winning side are nearly as stretched as before, and the economies and infrastructure of the ex-communist world almost as devastated by mismanagement and underinvestment as those of Germany after the bombs. As at that time, we on the winning side are working on a currency reform, and worried (with more justification this time) about a prospective recession. Meanwhile, the losers demand an opportunity to trade their way back from ruin.

One for history repeats itself? The prospect does not look too good. The sad irony is that while hindsight points the right way, it is a path we will find difficult to retrace. The economies of an unfought war or even of a bitter but limited one, are different from those of an all-out national crusade: people will make willing sacrifices for victory, but not for intervention or containment.

In financial terms, then, Reagan's exemplar is not Franklin Roosevelt (who was incidentally a sound finance man, in war and even in pre-war reflection), but Lyndon Johnson. Johnson lost Vietnam and Reagan won Star Wars on credit. Meanwhile, normal peacetime political economy continued (the normal aim of policy is to make the voters feel good). The post-war balance sheets show the results. After the Second World War, governments were in debt, but private citizens had large financial claims in cash and bonds and the disorganised British post-war credits: there had been no opportunity to spend. After the credit-card wars, by contrast, households are almost as burdened with debt as the state.

The material counterparts of the book entries are also a stark contrast. After the real war, there was a vast pent-up demand for goods and construction when the plant to meet these demands was in good shape, there was a long expansion, where demands could not be met, inflation was the danger. This is still the threat in the 'defeated' Soviet



By Anthony Harris

Union; but in the mature market economies, debt pressures or market saturation restrain demand, and threaten deflation.

One part of the post-Second World War solution looks obviously appropriate: there have been demands for a new Marshall Plan to meet the reconstruction needs of the post-communist world. However, it is not just the lack of an inspired ex-drafter from Missouri which prevents us from following the Truman example. The Marshall credits were offered in a low interest environment, backed with a liberal trade regime to allow the borrowers to earn their keep.

In our present world of debt overload, risk premiums are high, and in glutted western Europe, open borders are seen as a threat to rioting farmers and racist factory workers. Our local debt problems, except in the UK, are largely confined to the public sector, and are in no sense imminently threatening; yet under the rubric of a future monetary union, they get endless attention. This is looking the wrong way. The anti-inflationary bias of the Bretton Woods system was entirely appropriate to the post-Second World War world of shortages, and monetary overhang; a similar bias in ERM could make it very difficult to handle a world of plentiful supply and inadequate labour demand. We offer only grudging measures to avert the real political danger - the possible collapse of the Soviet system. Meanwhile, our pious minister of agriculture bleats about the "threat" of Polish raspberries. We should be ashamed of ourselves. While we devote ourselves to Euro-bombast and deflation, the US is setting a different example - restricted, unfortunately, to its own hemisphere.

The free trade area with Mexico, and the increasingly open Mexican borders to its stabler Latin neighbours, are creating a new dynamic of opportunity across the Atlantic. Some of the Latin borrowers are already achieving a debt work-out, and the long-term chances for the US are looking up.

This wisdom is not the result of deep economic thought, but of political pressures - exactly the same pressures, at bottom, which are producing such ugly reminders of racism in east Germany and France. The free trade area is designed to stabilise Mexico politically, and keep its citizens willingly at home. Perhaps the refugee threat in Europe is too new to provoke such clear thought among our rulers.

There is nothing, though, to prevent private investors thinking clearly, and the market multiples suggest that they are doing so. On a long view, Wall Street looks rather more attractive than the European bourses, because thanks to the Fed, growth is being led for the time being by manufactured net exports; productive investment is bound to respond in due course. This is in principle a problem-free scenario for the private sector, and will hurt the public sector time to work down its Third World War debts.

If things work out as well as seems possible, the Americans should erect a large statue not to President George Bush, who remains an economic fumbler, obsessed with trivia, but to President Salinas of Mexico, with some laurels too for the American development economists who have helped so many of the Latin American governments to bring some order out of long chaos. The hemispheric recovery will be led where it has to be led - by a turn round in the worst problem economies, and achieved largely by themselves.

The good news for us in Europe is that the governments in the more hopeful east European economies, and indeed in Russia, have noticed this. They hope that the Group of Seven will in the end mobilise the external funds they need to get reconstruction going, and will no doubt listen politely to all the advice which comes with such loans. But when they really need practical advice on how to manage the transformation of a ruined command economy into a market economy, they turn to the people who have shown the way - the ministers and advisers of Mexico. That's more than it.

News Corp considers raising up to \$900m

By Raymond Snoddy in London

MR RUPERT Murdoch's News Corporation, the international media group, is considering raising \$800m-\$900m in new money before the end of the year. Proposals have already been put to New York banks and have received a favourable response.

No decision has been taken, but it is considered probable that Mr Murdoch will decide to go for a new financial package even though this could involve a further few percentage points' dilution of his family

interests in News Corp, which now stand at just over 41 per cent.

The fact that Mr Murdoch and leading US banks have been talking about the possibility of a financing of up to \$900m is an indication of how much has changed since the completion of the company's more than \$7bn refinancing at the beginning of this year.

All the signs are that News Corp believes it can meet its financing obligations from its existing cash flow without

raising new money, and it has the option to do nothing. There is, however, a strong feeling that, if market conditions do not deteriorate, it would make sense to take the opportunity to raise more capital and take on some longer-term debt.

The exact balance between raising new capital through a rights issue and debt has not yet been decided. Although Mr Murdoch's media empire is still being affected by recession in its main markets, particularly in the UK and the US, there

have been a number of positive developments for News Corp in recent months.

Since January, Mr Murdoch has raised nearly \$1.5bn, which includes the proceeds from the disposal of his US magazines to Kohlberg Kravis Roberts for \$650m.

Since the beginning of the year, the prospects of British Sky Broadcasting, the satellite television venture in which Mr Murdoch has a 50 per cent stake, have also markedly improved.

McDonnell seeks orders for rival to 747

By Martin Dickson in New York

MCDONNELL DOUGLAS, the US aerospace group, is to start taking orders for its proposed MD-12 wide-bodied aircraft. The announcement does not mean that the financially stretched company has yet secured the funds to build the aircraft. But the fact that the board is prepared to give its civil aviation subsidiary the go-ahead to seek orders suggests its negotiations to raise the cash are on track. The programme is estimated to cost \$4bn.

The MD-12, a three-engine aircraft able to carry 375 passengers up to 9,000 miles, would compete on inter-continental routes against the Boeing 747 jumbo jet.

McDonnell, which strained its balance sheet ploughing some \$3bn into the development of its recently introduced MD-11 wide-bodied jet, has been seeking international partners for the MD-12, notably in Japan and other Asian countries.

It said that while no agree-

ments had been reached, it was talking to "potential partners" which could offer low-cost, high quality production and access to markets in their region.

"Discussions include risk-sharing contracts on the MD-12 and substantial, but minority, equity investments in the corporation's commercial transport business," the company added. It hopes to make a firm decision to begin the MD-12 programme in 1993.

Boeing has signed agree-

ments with several Japanese companies to provide parts for its twin-engine 777 aircraft, which is due to come into service in 1995 as a rival to the MD-11, but the equity stake proposed by McDonnell would carry American-Asian aviation ties a significant step further.

McDonnell Douglas is also the largest US defence contractor and the Pentagon would almost certainly want foreign stakes limited to its civil aviation side, based in Long Beach, California.

New Japanese leader aims to solve trade disputes

Continued from Page 1

the 101 votes representing the results in local party ballots.

The surprise was the strong showing by the second-placed of the three contenders, the Mr Michio Watanabe, who secured 190 votes and will demand that his faction be properly represented in a new cabinet.

While Mr Miyazawa must answer to the powerful Tak-

eshita faction, which furnished the necessary votes at yesterday's contest, he wants a "more mature" relationship with Washington in which Japan will be able to say "no" more often, particularly on trade issues.

"There will always be trade disputes," Mr Miyazawa said last night, "and we must try to solve them one by one." He

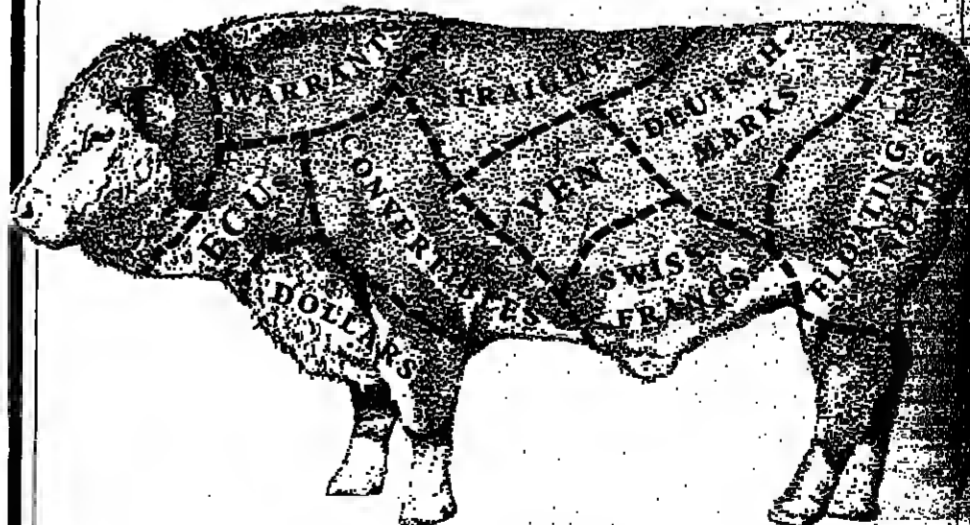
would like to sign a pact with President Bush during the US leader's visit here in late November that would mark the beginning of a new era.

"It will be the 50th anniversary of the Pearl Harbour attack. I would like to make this an occasion for a review of the past 50 years, and a preview of the next 50 years," he said. Mr Miyazawa, a former finance

minister, has already indicated that he wants to stimulate Japan's economic growth, which has slowed in recent months.

He has announced support for a cut in official interest rates, and suggested that a public investment package be drafted with the aim of renovating infrastructure and of kick-starting the economy.

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WORLDWIDE WEATHER											
Abaco	F	21	70	Berlin	C	14	57	Caracas	C	28	82
Algiers	F	23	73	Bombay	C	29	84	Casablanca	C	20	68
Ankara	F	18	64	Buenos Aires	C	18	64	Cebu	C	28	82
Atlanta	F	23	73	Calcutta	C	29	84	Colon	C	28	82
Bahia	F	23	73	Chicago	C	18	64	Hankow	C	18	64
Bangkok	F	28	82	Dallas	C	18	64	Hong Kong	C	28	82
Bombay	C	29	84	Denver	C	18	64	Kobe	C	18	64
Buenos Aires	C	18	64	Detroit	C	18	64	London	C	18	64
Calcutta	C	29	84	Edinburgh	C	18	64	Los Angeles	C	18	64
Caracas	C	28	82	Geneva	C	18	64	Madrid	C	18	64
Casablanca	C	20	68	Hankow	C	18	64	Mexico City	C	18	64
Cebu	C	28	82	Hong Kong	C	28	82	Monaco	C	18	64
Colon	C	28	82	Kobe	C	18	64	Nairobi	C	18	64
Dallas	C	18	64	London	C	18	64	Rangoon	C	18	64
Denver	C	18	64	Los Angeles	C	18	64	Seoul	C	18	64
Detroit	C	18	64	Madrid	C	18	64	Singapore	C	28	82
Edinburgh	C	18	64	Mexico City	C	18	64	Taipei	C	18	64
Geneva	C	18	64	Monaco	C	18	64	Tokyo	C	18	64
Hankow	C	18	64	Nairobi	C	18	64	Yokohama	C	18	64
Hong Kong	C	28	82	Rangoon	C	18	64				
Kobe	C	18	64	Seoul	C	18	64				
London	C	18	64	Singapore	C	28	82				
Los Angeles	C	18	64	Taipei	C	18	64				
Madrid	C	18	64	Tokyo	C	18	64				
Mexico City	C	18	64	Yokohama	C	18	64				
Monaco	C	18	64								
Nairobi	C	18	64								
Rangoon	C	18	64								
Seoul	C	18	64								
Singapore	C	28	82								
Taipei	C	18	64								
Tokyo	C	18	64								
Yokohama	C	18	64								

Temperatures at midday yesterday: C-Centigrade; F-Fahrenheit; D-Dew; H-Hail; R-Rain; S-Snow; T-Thunder.

Still drinkable after 40 years; Berlin's slow return to capital status Page 14

Monday October 28 1991



anticipated a year ago when the historic merger took place. Despite the hopes it raised, it is too soon to assume unification will definitely succeed, writes **Quentin Peel**

First year hangover

Chancellor Helmut Kohl, the man who knows he has written his name into the history books for seizing the opportunity of reunification, did his best to put a good face on it.

"We are experiencing an epoch-making change under the banners of freedom, democracy and the social market economy," he declared in the



Steering through heavy seas: a German television satirist's view of 'Admiral' Kohl and his high command

Meanwhile, the federal government would prove unable to cut any major spending programmes affecting individual interest groups - like the still swollen state subsidies to agriculture, steel, coal-mining and shipbuilding. With the need for public subsidies in the east still rising, the prospects for a significant reduction in the DM130bn public sector deficit are slim. The temptation would be for across-the-board, and therefore inflation-stimulating, tax increases.

"Without the European Community, we might never have been able to get our re-unification," according to a senior diplomat. "Mr Gorbachev might have been the only person prepared to agree."

The soaring mood of last October captured by a Franco-German crew at the Brandenburg Gate

POLITICS: astride the new Europe; electorate's post-unity blues; *Hurra Deutschland* end TV satire; rebels who sank without trace; a new CDU star

.....Pages 2-5

SOCIETY: racist backlash tests democracy; massive transfer of benefits to the former DDR; east's social fabric shows strain; medieval town that wants to be an airport; uncertainty for rail and postmen

ECONOMY: darker prospects; the big sell-off; interview with the SPD's finance spokesperson; repairing the wreckage; unions on the carpet;

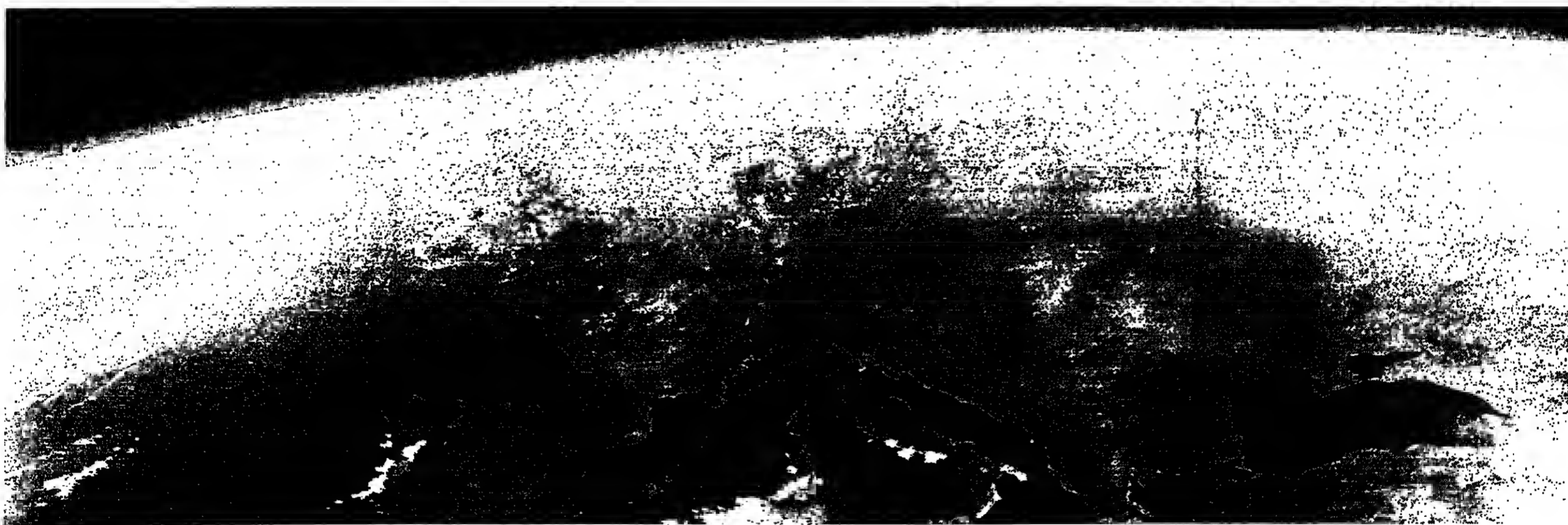
Pages 10-11
FINANCE: Frankfurt tested as a cash-raising centre; Bundesbank's role in national reconstruction

Pages 11-12
INDUSTRY: year of stimulus; engineering, chemicals and motors; Veba and Volkswagen go east; a case of Prussian whisky; Berlin's prospects; environmental clean-up slows down

Pages 12-14

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BREMER VULKAN

GERMANY 2

After the crash of the Soviet empire, Germany feels the pull of a growing power vacuum, writes Quentin Peel

Uneasy giant astride Europe's political fault line



UNITED Germany means a Germany once more at the fulcrum of Europe, balanced between East and West. It is Germany's fate and Germany's natural position. But it is scarcely a comfortable one. The collapse of the empire in the East, the Soviet empire, has thrust Germany almost overnight back into the role of dominant power in central and eastern Europe. For there is today a power vacuum in the region, and the re-united nation is being sucked back into it.

It is not just a question of being the dominant economic power, the highest focus of trade and the leading source of investment. It is apparent in more political ways.

In early September Mr Heinz Riesenhuber, the Minister of Research and Technology in Bonn, hosted a meeting of all the research ministers of the former Comecon countries to discuss what should be done to maintain their former joint scientific research programmes. Germany called it because the former East Germany was obviously as involved as any.

Germany is the western power most concerned by the threat of turmoil in eastern Europe

"What we didn't realise was how grateful they would be," according to a senior official in the Ministry. "Nobody had brought them together since Comecon began to collapse. They had lost touch, and their programmes were grinding to a halt. We were simply being dragged into the leadership role the Soviet Union had abandoned."

Because of its geographical position, Germany is also obviously the West European power most concerned, and most affected by the threat of political and social turmoil in



Swept along by a tidal wave of change, President Gorbachev welcoming Chancellor Kohl in Moscow in July 1990

the East. It is the first step for economic migrants, as it is already finding to its cost. "When you are closest to the cooker, you feel the heat," a Foreign Office diplomat said. "We cannot feel relaxed about what is happening in the Soviet Union."

The prospect of being a dominant regional power in central Europe once more is seen in Bonn as a very dangerous temptation. For they are conscious that it could prove more seductive to a new generation of politicians than the traditional post-war German role of playing equal partner among many in both Nato and the European Community. And they are equally absolutely adamant that the seduction will not work.

"Unification has increased the temptation for some Germans to look in other directions, in the sense of keeping their options open," according to one senior diplomat. "I cannot exclude that in the long run, in the next generation of German politicians, that thinking might gain the upper hand. But I still think that even the next generation will see what is good for Germany."



And the truth is that the European Community, and Nato, have been extremely good for Germany. That is a very real reason why, against what many British sceptics may believe, a very large majority in Germany is solidly "communitaire", pro-EC, and thoroughly federalist to boot.

The immediate effect of unification, therefore, has in a curious way been to strengthen Germany's commitment to the EC, not to weaken it. It has certainly fuelled the current passion to "deepen" the Community, through European political and monetary union.

"The Germans are not British. They are genuinely committed to Europe. They committed themselves as a sort of counter-offer to German unification," according to one top official dealing with EC affairs. "Our allies helped us in this process. The French even made a linkage, although it was not direct. A unified Germany needs to be integrated into the Community, not only for German good, but also for Europe's good."

Yet there is clearly a different strategic emphasis in Bonn (and Berlin) to that in Paris and London.

"The French want to deepen the Community, but not to enlarge it. They are very suspicious of letting in too many new members. As an integrationist, one should sympathise," the senior diplomat says.

"The British want to enlarge the Community, but not to deepen it. They would let them all in, and turn the EC into a free trade zone. It would be the ultimate victory for Maggie. But that would lead to its gradual disintegration."

"We are in the middle. We have always refused to choose between Nato and the EC. We have always told the French the two things can be done together. We also refuse to choose between deepening and widening. It is the only logical position for us. We want both."

That is why, apparently against the national interest, Germany is prepared to sacrifice its precious Deutschmark for some future European currency, in the process of European monetary union, in exchange for something called European political union, which is likely to be much less substantial.

What is most noticeable in Germany is the absence of real debate over these crucial questions of policy which the negotiations on EMU and political union imply. The fact that monetary union is probably the single most substantial step in transferring national sovereignty, and control over real political issues like taxation, to the European Community, has scarcely been hinted at.

The crucial question of how it will be possible to incorporate the chronic deficit spenders of southern Europe into a

There is obviously a different strategic emphasis in Bonn and Berlin from that in Paris and London

single monetary system, without undermining the future currency, is ignored.

"European integration is taken for granted, in the sense that it is considered a natural ingredient of any German foreign policy," is one diplomat's explanation. "As long as it moves in the right direction it is OK. They will start to scream only when it founders." When the finance committee of the German Bundestag finally began to debate EMU in September, it was clear that the debate was simply about how it should be done, and never for a moment questioned whether it should be done at all — as the similar debate in Westminster would have surely done. As for the Italian budget deficit, it was politely never mentioned.

Now the whole question in Germany is whether the need to accommodate the hesitant British will not undermine the whole deal at the EC summit in Maastricht in December. The EC committee of the Bundestag is threatening to link the questions of EMU and political union — to insist that an inadequate deal on the latter will mean no deal on the former either.

There is frustration with the Brussels process in Bonn, and not just with the British. Yugoslavia has been a crucial factor, highly indicative of the new tension in German policy. The result has been an extraordinary personal animosity



... and a month later, Soviet troops begin pulling out at Neuruppin, East Germany

between Mr Hans-Dietrich Genscher, the Foreign Minister for 17 years and therefore by now the very personification of German foreign policy in all its twists, and Mr Hans van den Broek, the puritan and schoolmasterly Dutch Foreign Minister.

Yugoslavia is a classic question of the East on which Germany feels far more involved than any other EC country, with the possible exception of Italy. The civil war has been covered in Germany with maximum media exposure, and with overwhelming sympathy for the case of Croatia and Slovenia in their battle to break away from the Serbs. There is barely a whisper of understanding for the Serbs themselves.

Mr Genscher, the ultimate weather-vane politician of domestic politics, a man of acute political instincts, had begun by being statesmanlike and even-handed in his attitude, but rapidly switched to

demanding pro-Croatia intervention when he saw what his domestic constituency wanted. He urged diplomatic recognition. He urged intervention through a peace-keeping force. He went very publicly out on a limb against the consensus of

After the EC's failure to pacify Yugoslavia, German politicians and public see it as still a feeble institution

his EC colleagues, and above all against the line of Mr van den Broek.

Most German diplomats would admit that their government was out of line in seeking to intervene in an impossible situation, and that the EC consensus was instrumental and entirely helpful in letting sanity prevail in Bonn. But politicians and the German media are far more of the opinion

that Brussels has failed as a peacemaker, and it goes to show that the Community is still a feeble institution.

The question now is whether those frustrations with the ponderous and consensus-building practices of Brussels and frustration with the foot-dragging British in failing to turn the Community into a genuinely federal structure, will undermine Germany's very real commitment to the whole west European integration process.

To date, there is no sign at all of that in Bonn, in the political and diplomatic establishment. There is a slight wavering in the business community, particularly over monetary union. There is a little in the east, where the temptation to turn to central Europe is inevitably greatest.

But the consensus is still overwhelming. Germany has done very well out of the European Community so far, so why change?

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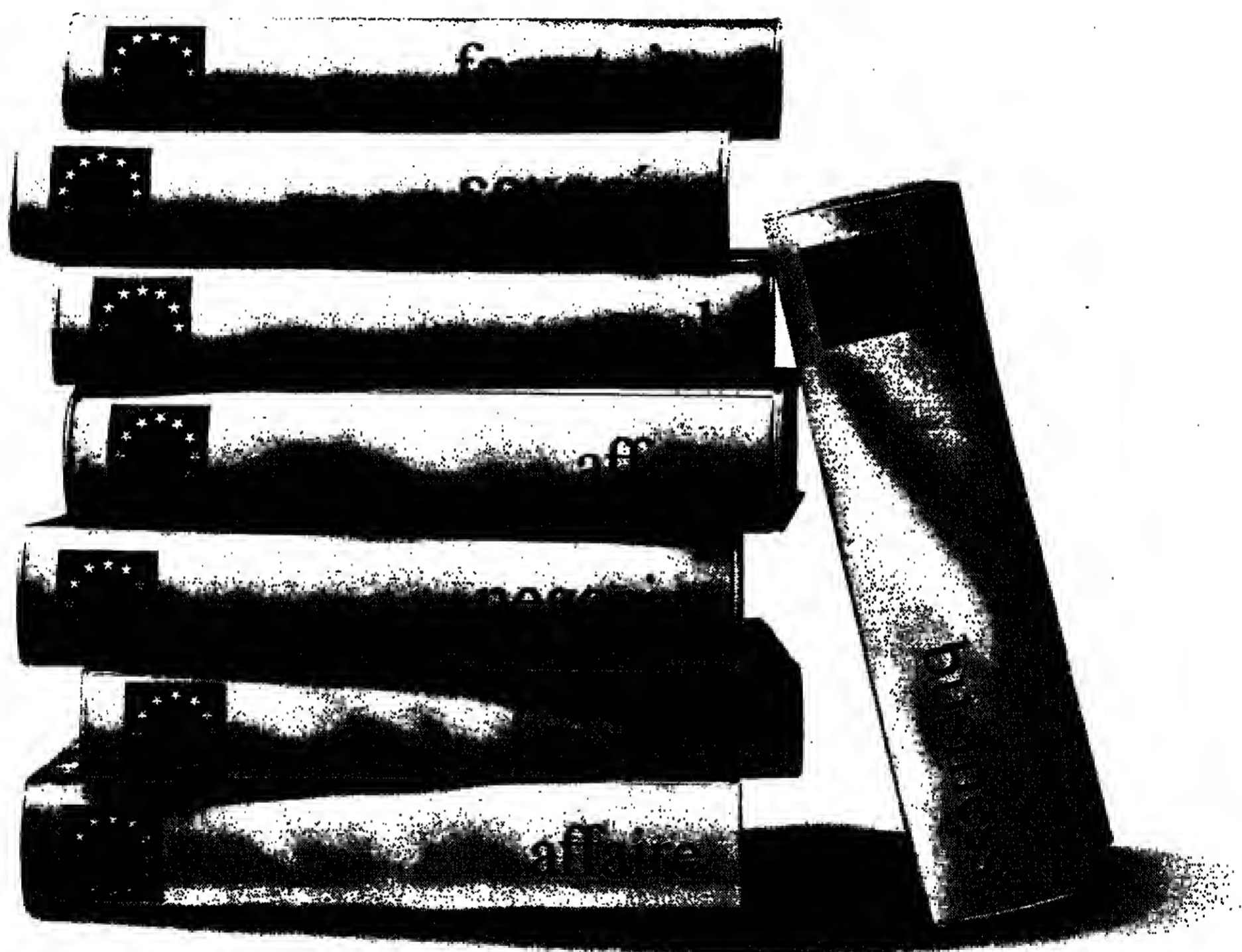
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GERMANY 4

Politicians are struggling against a widespread sense of post-unity blues, writes Quentin Peel
Under the surface, a deep split persists

LIKE virtually every other aspect of the united Germany, its politics are still divided. The two halves of the nation have almost entirely different political agendas. Their differing economies dictate quite different economic policies: the westerners want less taxation; the easterners need more state spending. On top of that, both sides of the 40-year divide still boast very different views of life.

No wonder the political parties are twisting and turning in confusion, for they have to reconcile the conflict under one national umbrella. They are trying to behave as united parties, but finding the process well-nigh impossible.

A survey in September of the top political priorities in east and west (the ZDF television Politbarometer) gave a graphic illustration of the divide. By far the biggest issue in the east was unemployment, cited by 60 per cent.

In the west it was mentioned by only 12 per cent. Next most important was the state of the economy (20 per cent), third was pensions (15 per cent) and fourth was the housing market and rents (13 per cent).

In the west, the biggest issue of the day was the inflow of asylum-seekers and foreigners - cited by 45 per cent, and not even mentioned as an issue in the east. Second big issue for the West was simply called the "problems of unification" which worried 40 per cent, and third came protection of the environment (16 per cent). The question of tax rises to pay for unification was ranked right up alongside unemployment.

The great irony of the post-unification elections in December, 1990, was that Chancellor Helmut Kohl and the Christian Democratic Union (CDU) got it wrong - and won. Mr Oskar Lafontaine of the Social Democrats (SPD) got it right, and lost.

Perhaps that is too simplistic, for Chancellor Kohl got one thing overwhelmingly right. He guessed that unification

was possible, and he went for it regardless of the cost. When the comp happened in the Soviet Union in August, the entire nation breathed a sigh of relief that the job had already been done, and could not be undone. There was no way that the confused and demoralised Soviet troops who remain in the east can turn round now and stay (unless they are trying to defect from an empire which no longer exists).

It was the cost of unification which Mr Kohl got very wrong. He promised them in the east that it would all turn round very fast. He promised them in the west that they would not have to pay any more taxes for it. He was wrong on both counts, and he won.

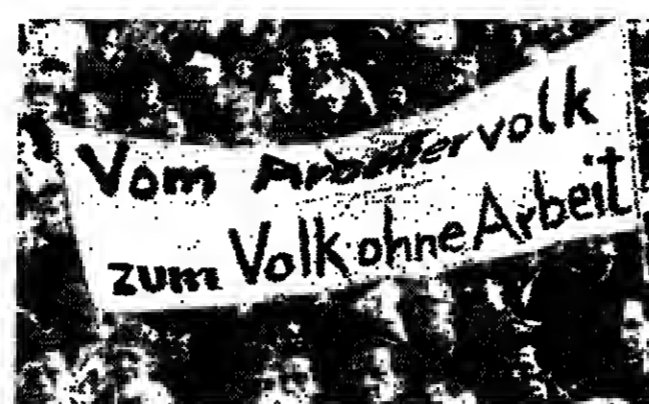
Mr Lafontaine fought a miserable campaign. He warned of the bitter costs to be paid, and nobody loved him for it. He relied on the historic strength of his Social Democrats in the former strongholds of the east (Red Saxony was always a force to be reckoned with), and he failed to realise that his party had been partly tarred

with the brush of the collapse of socialism.

But now, almost a year on, Mr Kohl's ruling coalition is starting to pay the price of its victory. His CDU in particular has seen a drastic decline in its fortunes in the east, and is languishing in the west as well.

In the country as a whole, the combined popularity of the CDU and the Bavarian-based Christian Social Union (CSU) stood at 34 per cent in September, according to the ZDF poll, one per cent down on August, while the SPD was well ahead on 45 per cent. But that figure combined a continuing drastic decline in the east for the CDU (down five per cent to just 25 per cent), and a marginal recovery in the west (of which more below). The SPD was up five points in the east to 44 per cent.

The slump in CDU popularity, above all in the east, has led to a drastic, and rather brutal, shake-up in its leadership. Mr Lothar de Maizière, leader of the eastern CDU and deputy to Mr Kohl, was unceremoniously dumped, when rumours of possible involvement with



Six months into unity, Leipzig's attack rising unemployment

the dreaded East German Stasi secret police were allowed to foster. He never got on with the Chancellor, and his western colleagues had got fed up with his eternal pleading for the downtrodden Ossis.

Hence the dramatic promotion of Dr Angela Merkel (see facing page), who only joined the party in August, 1990, and is now being put forward by Mr Kohl as his new deputy. She is scarcely a dynamic new leader, but she is an acceptable

one, and she is also a force for peace and unification in a deeply divided structure. And at least she is not tainted by the past.

The fact that the CDU inherited the structure and assets of an old "block party" is clearly both a blessing and a curse. It gave the party a running start on the SPD, whose eastern predecessor was forcibly united with the Communist Party into the Socialist Unity Party (SED). Now the social democrats are fighting to get some of their party assets back.

On the other hand, the SPD has not inherited a discredited structure, and can start from scratch. So on the one hand the CDU has a membership of perhaps 80,000, and 25 per cent popularity, and on the other the SPD has around 30,000 members, and 44 per cent support.

All the old block parties are losing members steadily. The Free Democrats (FDP), who once boasted more official members in the east than in the west (about 170,000 at unification) was down to barely 90,000 at the last count. More significant, none of the parties is finding it easy to attract new members. "People don't want to get into parties any more," according to one outside observer.

In the east, the dearth of new members seems to be a function of deliberate rejection. In the west, the same phenomenon is happening, but there it seems to be much more a reflection of materialist apathy.

A frequent criticism of Cham-

cellor Kohl, from within his party as much as from outside it, is that he has allowed a gerontocracy to rule, cutting down all possible rivals, and therefore allowing both government and party to drift.

Nonetheless, he does have an heir apparent in Mr Wolfgang Schäuble, currently interior Minister and soon to be party leader in the Bundestag.

The problem is that Mr Schäuble, who is also 49, is wheelchair-bound since an assassination attempt just one year ago, and in spite of a remarkable recovery, there must be uncertainty over his fitness for the highest office.

Mr Rühe, on the other hand, has been a key figure in identifying the issues needed to revive CDU popularity. In recent months, that has been above all the issue of the asylum-seekers.

There is no question that Germany has faced an unprecedented pressure of immigration since 1989. Most have been immigrants of German origin from eastern Europe and, until unification, from east Germany. Today, however, the

largest number are asylum seekers from all over the world, seeking to exploit the country's relatively liberal asylum laws. In reality, a significant minority are simply economic immigrants.

Mr Rühe denies vehemently that the issue has anything to do with racism - although he admits that the wave of skin-head attacks on migrant huts are racist. It is rather, he says, deep resentment by many Germans at the abuse of the liberal constitution.

Mr Rühe and Mr Schäuble have hammered away at the need to tighten up, at the need to change the constitution, and it appears that they are

Given their solid lead in the opinion polls, the SPD seems to be suffering from more confidence than it deserves. A run of good state election results has left it with a majority in the Bundestag, the upper house of the German parliament. But even that is a mixed blessing. The tension between state interests and those of the federal party can cause confusion on more than simply asylum. On the government's planned increase in value-added tax, for example, the national SPD leadership is pledged to oppose, but the state governments, who will get a nice share of the increased revenue, are tempted to accept.

The other problem for the social democrats is their lack of an obvious Chancellor-candidate to oppose Mr Kohl. Mr Egon Engelen, prime minister of Schleswig-Holstein and current party chairman, is proving personable and intelligent, but he still does not seem to measure up to the "big man".

What the party must be fighting for now is that by the next elections in 1994, Mr Engelen will have grown into the job, while Mr Kohl is still dragged down by the economic aftermath of unification.

What Mr Kohl must hope for is that at least one part of his prediction comes true: that the massive economic and industrial might of the west proves enough to turn the eastern economy round by 1994, and he can reap the benefit.

TV satirists are becoming cheekier, writes David Goodhart

A spit in the eye of authority

Göke, deputy head of entertainment at WDR, says: "What we have done recently might not seem very new in the Anglo-Saxon world but Germans have never seen anything like it."

Portraying the Chancellor Kohl puppet, wearing a huge condom for a hat, as a sex-shop owner, or showing the rather goodie-goodie President of the Bundestag, Mrs Rita Süssmuth, making a speech about pornography without any clothes on, is a small revolution.

It also seems to be a popular one. In some of the most recent 12 programme runs of the series, which has been going for three years, *Hurra Deutschland* has been claiming up to 30 per cent of the viewers, higher than the British *Spitting Image*.

It even has an official fan

club which organises trips to meet the 20 people who work on the show and see new puppets being made. "We had a dreadful start. The critics were unanimous in describing us as terrible and the viewers seemed to agree with the critics," says Mr Göke. But it has gradually improved, becoming more self-confident and daring.

The critics are now divided 50:50 and the ratings are usually between 20 per cent and 30 per cent. Unlike *Spitting Image* it has always aimed for a relatively broad spectrum of viewers, which is clearly a restraining influence in a country not used to public mockery of political leaders. It also concentrates less on politicians than *Spitting Image*. Although it clearly borrows a lot of ideas from the British show, and the puppet types

are identical, it has no formal relationship with the British version and pays no royalty to it.

But it is still easily the most expensive programme produced by the entertainment department at WDR, costing about DM15,000 per minute (for a 14 minute show). For that reason, says Mr Göke, it might soon be off the air. If it is scrapped the controversy it has generated, whipped up by the German popular press, will clearly have played a part.

In Germany's highly political TV system the WDR is dominated by Social Democrat sympathisers and is considered among the most liberal of the regional stations, but it cannot step too far out of line. Mr Göke says that the politicians in Bonn have not reacted publicly to the pro-

gramme, but some of them have no doubt told Mr Göke's superiors how tasteless they find it.

Mr Göke does get a huge mail bag from the public split about 50:50 for and against - including a fair amount of abuse from extreme left and right. "I've been called everything from a Nazi to a Jewish pig," he says. There have also been several attempts to take the programme makers to court. The most recent case was brought by an animal rights group complaining about a spot public information item showing people how to get their pets squashed on the motorway.

The legal context - the German constitution plus WDR's own rules on respect for all races and religions - is probably more restrictive

than in Britain. It was more difficult, for example, for *Hurra Deutschland* to have a go at Saddam Hussein during the Gulf War. But the highest restraint, according to Mr Göke is self-censorship based on a view of what the public will find acceptable.

Self-censorship there may be, but actual censorship from his superiors has never happened, claims Mr Göke. In one famous incident it was suggested from above that Mrs Rita Süssmuth's otherwise naked puppet body might have its breasts blotted out. Mr Göke said he accepted this idea because it improved the sketch; outsiders saw it as censorship.

Much of the difference between *Spitting Image* and *Hurra Deutschland* must be put down to national differences in sense of humour and taste. The Germans, like the British, like to laugh at the misfortunes of others and like to see the great and good portrayed as bumbling fools, "but our sense of humour is probably less brutal," says Mr Göke.

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Quentin Peel meets Angela Merkel, a rising star of the CDU

Pragmatic newcomer with her eye on the ball

THE woman chosen by Chancellor Helmut Kohl to be his future deputy in the Christian Democratic Union (CDU), the dominant partner in Germany's ruling coalition, comes across as a refreshingly thoughtful, even self-effacing character.

Dr Angela Merkel is the new face of the new east Germany, untainted by the glitter and self-assured superficiality of so many hardened western politicians. You ask her a question, and she thinks carefully before replying.

She sees herself as a pragmatist, not a visionary. "Sometimes I am accused by young people of having no vision," she says. "I have a disturbed relationship with this concept of 'vision'. We have had enough 'visions'. I think that it is most important to do something practical."

"Ever since my childhood, life has got ever more difficult, and so I am thankful for every practical step forward."

She has been catapulted to the top in a remarkably short time, like so many of the new figures emerging from the cauldron of unification.

Less than two years ago she was a scientific worker in physical chemistry at the old

East German Academy of Sciences. At the end of 1989 she joined the Democratic Awakening, one of the early democratic movements to spring up as Communist rule disintegrated. By February 1990 she was its press spokesman.

After the March elections she became deputy government spokeswoman for Mr Lothar

de Maizière, the first non-Communist prime minister in the East. In August that year, she joined his party, the CDU.

In December, 1990 she became a member of the united German parliament, in Jun-

ary the minister for women and youth affairs. Now barely 10 months later she is candidate to be deputy leader of the party. She takes it all with remarkable equanimity. "I owe my position first of all to the fact that I represent the new Bundesländer," she says.

"It is just a matter of chance that I also come from the younger generation (she is 37 years old) and that I am a woman. But that obviously makes a good impression, too. They are helpful side-effects, so to speak."

"I think that I bring a particular experience (to the party) which makes it possible to understand better what is happening in the new Länder."

She sees herself very much as standing in the middle between the two mutually-comprehending sides of the

continuing German divide, the Ostis and the Westis.

"I think I can do something to interpret between the two," she says. "I think that I came through the whole process of German unity relatively unharmed. I have done well. I have got a new role, and I don't feel any need to build some sort of counter-reaction to the other side, out of sheer bewilderment."

The daughter of a Protestant clergyman, she believes she always managed to live with a sort of schizophrenia under the old regime, keeping many contacts with friends and relations in the West, and therefore having a reasonably realistic picture of life in the outside world. "I think what we are suffering from in Germany today is that everyone has a particular image of one

another, but they are far from the reality. The east German cannot understand that the westerner is also touchy about things, and has his own fears. And the westerners are fearful, they see the easterners as being too demanding and too vehement." Dr Merkel is being brought into the leadership of the party to replace her old

mentor, Mr Lothar de Maizière, pushed out ostensibly for his suspected contacts with the dreaded East German Stasi, the security police.

In reality, de Maizière was more a victim of the struggle

between the old members of the eastern CDU and the new, seen as too identified with the old order, when the CDU was a sanitised and toothless opposition to the Communist Party.

Can she heal the wounds left by his departure? She is not sure she really wants to. "I have too much respect for him," she says. "I learned so much from him."

The party in the east, she says, is only just coming to terms with "what it wants for itself. We always lived as anti a particular system. That was our raison d'être. We have forgotten how to do things for ourselves. We never had the opportunity."

What about the pre-occupations of the west? For example, is the European Community a relevant institution to people of the east? "There's no doubt it is important for us," she says, "especially for us Germans. In the DDR we had a disturbed relationship with our national identity."

"In England you seem to think you are giving something away to Europe. That doesn't cause me any problem. I find it almost an enrichment." Just on one crucial issue she is worried. "I experienced monetary union between



The uncharismatic Dr Merkel: a long pause before replying

the east and west," she says.

"I see what huge problems have been caused by that. I worry when I hear about the European monetary union. I wonder if the same sort of problems might not be caused

on a European scale."

Yet at the end of it all she seems an irrepressible optimist. "You see, I keep saying to myself, now I've survived socialism, nothing worse can happen to me."

Leslie Colitt reflects on the lack of local leaders where the communists once ruled

Victorious dissidents who lost their role



Dr Maizière: tragic

EAST GERMANY, like the other former Communist countries, suffers from a debilitating lack of young, home-grown talent in the major political parties. What it does have is an abundance of older, compromised politicians whose careers were carved out as obedient officials of the old "bloc parties".

The (East) Christian Democrats, Liberal Democrats, National Democrats and the Peasant's Party were little more than puppets of the ruling Socialist Unity (Communist) Party.

Ironically, the east German dissidents who helped topple the Communist regime and formed the nucleus of the New Forum movement in the autumn of 1989, were quickly pushed into the background by the west German parties and their east German partners.

Opposition leaders such as Mr Konrad Weiss of Democracy Now, Mr Gerd Poppe of the Initiative for Peace and

Human Rights, Professor Jens Reich and Mr Reinhard Schulz of New Forum never seriously considered becoming the leaders of post-Communist east Germany. Only Mr Weiss and Mr Poppe retain a degree of political influence as members of the Bundestag.

The absence of credible local leaders explains why an import from west Germany, Mr Kurt Biedenkopf, a 60-year-old Christian Democratic (CDU) politician, was chosen to head the government of Saxony, east Germany's most populous state. Mr Biedenkopf has achieved a popular standing which contrasts sharply with the decline in the popularity of his former rival, Chancellor Kohl, who removed him as chairman of the CDU in the 1970s.

But even Mr Biedenkopf, a provocative thinker and a loner in his party, was in no hurry to purge the Saxon CDU of its old guard. Mr Arnold

Vaatz, the 36-year-old former dissident who until recently headed Mr Biedenkopf's chancellery in Dresden, urged a faster cleanup of the East CDU. Although recently pushed aside to become environment minister, he is regarded as a man with enormous potential as a leader.

The crisis in the East CDU came to a head last month. In response to growing protests by new members of the Party in the East, the CDU in Bonn initiated a purge of the Eastern leadership. A leading victim was Mr Lothar de Maizière, unquestionably the most tragic figure in east German politics. The former East German Prime Minister, who was rewarded after unification with the post of Deputy Chairman of the CDU under Mr Kohl, resigned after a bitter squabble with the Party in Bonn.

Shortly afterwards, Mr Klaus Reichenbach, chairman of the CDU in Saxony, also stepped down under pressure from party headquarters. Mr de Mal-

zière had long been regarded as a liability for the national CDU. He was unable to explain away persistent charges that he was a Stasi informer while a lawyer in east Berlin and a prominent member of the Protestant Church's lay leadership. But he also bit a raw nerve with the CDU in Bonn by accusing it of riding shiphead over east German sensitivities.

Mr Kohl retaliated by choosing as his new deputy Ms Angela Merkel, former deputy spokeswoman for the de Maizière Government. Since last January she has headed the Ministry for Women and Youth in Bonn. The Chancellor clearly hoped to be able to stem his loss of popularity in the East with her help.

It is debatable, though, whether the 37-year-old pastor's daughter, who is a trained physicist, can live up to his expectations. Her support for the conservative position in the abortion debate gained her many enemies, not least in east

Germany. Mr Günter Krause, at 38 years of age another of Mr Kohl's east German Wunderkinder, was rewarded for negotiating the unification treaty with West Germany by his appointment as Transport Minister.

Formerly a construction engineer in Wismar, he served in the old East CDU but explained later that he took part in clandestine discussions within the Party on restoring a market economy in the East. As the negotiator of the unity treaty he gained a reputation of being the most professional, Western-style politician in east Germany.

He survived massive accusations by the media that he personally influenced the awarding of restaurant sites on the east German Autobahn to a Dutch investor. The charges could not be proved.

The Liberal Free Democrats (FDP) have a strong contender for a post in the national leadership of the Party in Mr Con-

rad Michael Lehment, the 46-year-old economics minister of Mecklenburg-Vorpommern who managed his family's nationalised drinks company under the Communists.

His reputation, though, is strongly bound up with the future of the crisis-racked shipbuilding industry in his state. He fears it could lose up to 40,000 out of the 50,000 shipyard workers still employed. Mr Lehment is convinced that agriculture in the state, which employs 200,000 people, can compete favourably with the West only by retaining sufficiently large-sized farms run

on a cooperative or private basis. But the agriculture ministry in Bonn is apparently not keen on preserving the existing large-scale farms in east Germany.

While native east Germans head the governments in three out of five east German states, Mr Manfred Stolpe, the Social Democratic Prime Minister of Brandenburg, is the only one to have gained national stat-

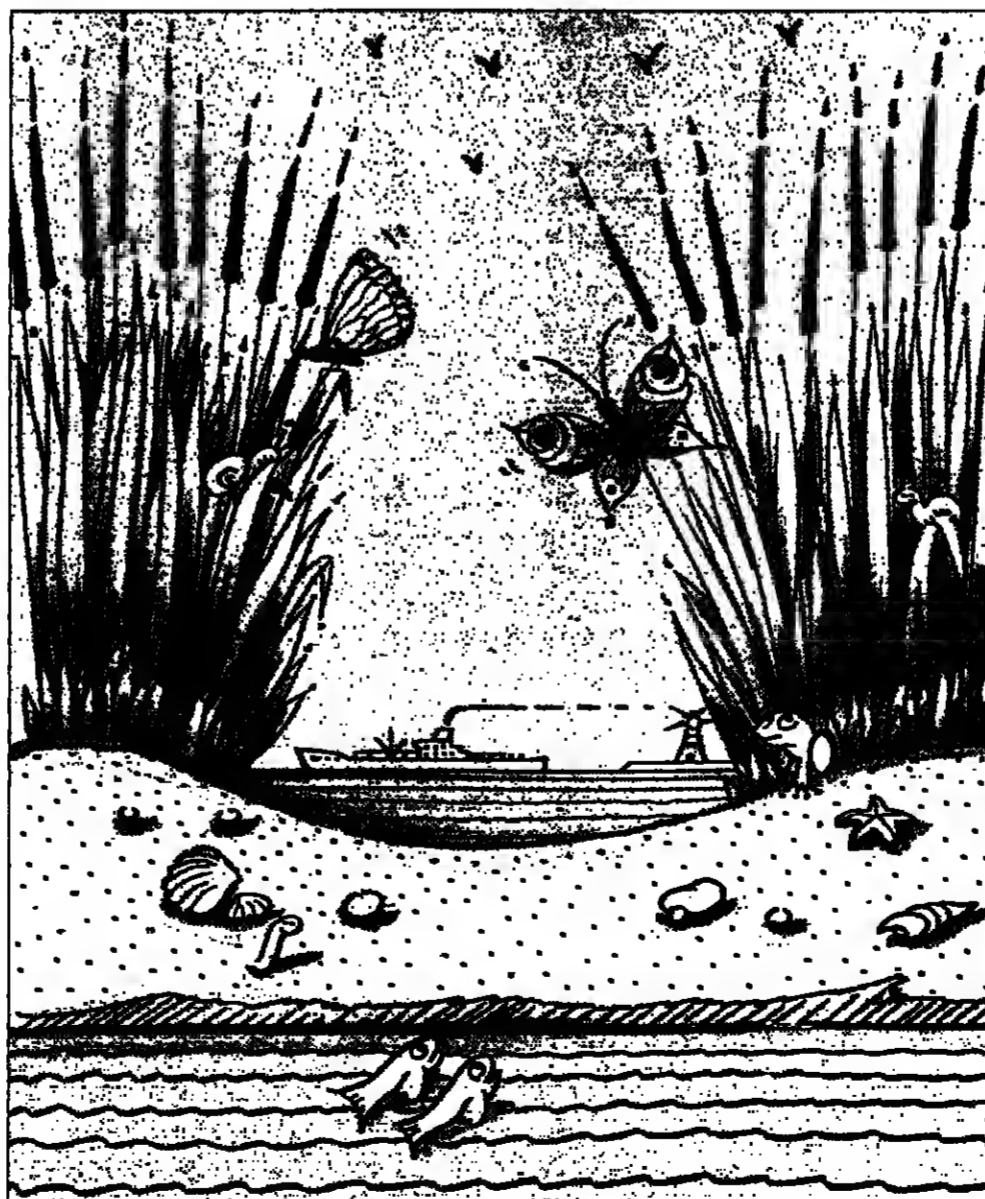
ure. Mr Alfred Gomulka, the Prime Minister of Mecklenburg-Vorpommern, and Mr Josef Dutschke, who heads the government in Thuringia, were members of the old East CDU.

Mr Gomulka still reads off lengthy speeches from prepared texts. The 65-year-old Mr Stolpe heads a coalition of parties in Potsdam and is a leading proponent of consensus politics. The eloquently-spoken former lay official of the Protestant Church in Berlin-Brandenburg was one of the architects of the "Church in Socialism". He was also its main negotiator with the Communist leadership on humanitarian issues.

But Mr Stolpe later questioned the Church's role under the Communists as well as his own initial reluctance to support German reunification. His remark that east Germans had "mentally still not arrived in the Federal Republic" aptly summed up the barriers which remained in the way of their integration. Mr Stolpe has been mentioned as a possible successor to President Richard von Weizsäcker or candidate for chancellor but avows that he will remain in Potsdam, the seat of the Brandenburg Government, as long as the Brandenburgers need him.

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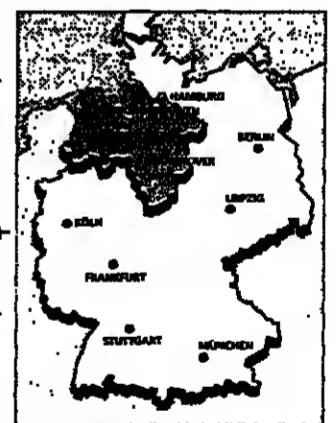
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GERMANY 6

Anti-immigrant backlash raises the political temperature, writes David Goodhart

Land of plenty where skinheads march



Overjoyed Albanians arrive in Athens: but are they political or economic fugitives?

SINCE January 1989 more than 2.5m immigrants have come to live in west Germany. That is almost twice the rate, relative to population, of entry into the US during the 1920s mass immigration and, apart from Israel, several times more than any other OECD or EC state takes today.

Comparisons are difficult but, over the same period, the UK has probably taken in no more than 100,000 people.

Immigration at such a rate, the highest since the immediate post-war period, cannot go on indefinitely, but west Germany is a large and rich country and in short bursts can absorb such numbers relatively easily. Indeed the employers' economic research body, the IZ, argues that the influx is benefitting the economy, is only very rarely taking jobs from indigenous Germans, and will help pay the pensions of the dwindling indigenous population in the next century.

How many of the 2.5m immigrants are actually "foreigners" is hard to say - by legal definition, probably less than half a million. More than 1m were "Aussiedler", east Germans who moved to west Germany between September 1989 and unification in October 1990, and slightly less than 1m were "Guest-workers", mainly



Poles and Russians who can claim German descent and thus a right to live in Germany.

Nonetheless the sheer scale of immigration has reopened the old debate about multiculturalism and absorptive capacity, about who is a German, and, finally, about Germany's liberal asylum laws which attract a disproportionate number of political and economic refugees. Or rather it should have done. In fact there has been little more than a political slanging match between centre-right and centre-left about how best to deter refugees.

Meanwhile, the neo-Nazi fringe has triggered a series of "copy cat" attacks on refugee homes which have been widely condemned but have found a sympathetic echo in a xenophobic minority of perhaps 20 or 25 per cent of the population.

Immigration seems to rise to the top of the political agenda every 10 years in Germany. At the beginning of the 1970s the issue was about stopping the influx of "guest-workers" from Turkey and southern Europe who had been recruited in the late 1950s and 1960s to sustain the economic miracle.

In 1973 all new recruitment of workers was stopped. The first generation of guest workers, especially from Turkey, did not integrate well and German law - which does not allow dual citizenship - made it difficult for many to become full voting citizens.

The second generation often feel that they belong neither in Germany nor in their parents' homeland. The problems associated with this dislocated minority led to a second immigration debate in the early 1980s. The new centre-right coalition tried to persuade guest workers to return home, with generous incentives, but few did.

Currently about 5.7m for-



Neo-Nazi rally at Bayreuth: frenzy on the fringe

signers are permanently resident in Germany, about 6.5 per cent of the total population of the united Germany. More than 4m are guest workers or their descendants, many of them born in Germany, including 1.6m Turks, 650,000 Yugoslavs, 530,000 Italians.

But an increasingly large minority are the refugees who have sought asylum in Germany from political or economic misery at home. The current immigration debate has focused on them rather than the more numerous guest workers or Aussiedler.

The annual number seeking asylum has exploded from a low of 20,000 in 1983 to an expected 230,000 in the current year. They do not, contrary to public myth, flood illegally across the now open border with Poland and Czechoslovakia. About 90 per cent arrive in the country quite legally with visitor or tourist visas and then claim asylum under article 16 of the constitution.

That article, a monument to the fact that hundreds of thousands of Germans found asylum abroad from Hitler's tyranny, guarantees asylum only to those who are genuinely persecuted. The number of refugees who are granted official asylum is now as low as 5 per cent of applicants. However up to 40 per cent of asylum seekers are allowed to stay on humanitarian grounds or because they are covered by international agreements on the treatment of refugees, (the largest group this year, 26,000 Yugoslavs fleeing civil war, will almost all stay).

Even those who are ruled not to have a right to stay are protected, often for several years, by another clause in the constitution which guarantees the right of legal appeal against administrative decision. About one-third of refugees leave voluntarily or are thrown out by the authorities but about 1m are currently resident in Germany.

Nearly 90,000 are officially recognised as asylum seekers and a further 500,000 have been allowed to stay despite failing to win official recognition. The final group of 350,000-plus are refugees whose cases are still going through the legal machinery, many of whom will eventually leave.

Many neo-Nazi skinheads make little distinction between asylum seekers and the equally "foreign" Aussiedler. But the law does. The 1.2m Aussiedler who have arrived in the past six years are automatically full German citizens, get eight months free language tuition and other aids to integration, and full access to the labour market and social security.

They are, on the whole, willing and swift integrators. Unemployment among the Aussiedler who have arrived since 1986 is about 25 per cent but considering that many come speaking scarcely a word of German, which excludes them from some service jobs, that is not a bad record. Having reached a peak of 400,000 in 1990 the Aussiedler flood appears to be abating, although there could be another 10m people in eastern Europe and the Soviet Union who can claim Aussiedler status.

The number for the first nine months of 1991 was down to 160,000, partly because of new registration procedures in their country of origin and strenuous attempts by the Bonn government to improve their lot where they are. But unless potential asylum seekers are put off by reports of asylum homes being fire-bombed, the chaos and civil war in parts of newly open eastern and south-eastern Europe, not to mention the Middle East, is likely to keep the number of legitimate and illegitimate refugees high.

With the burden of unification to deal with and the votes of a xenophobic minority to compete for, all major parties accept that something has to be done to stop the abuse of the asylum laws. The Christian Democrats insist that the constitution must be changed to make the right to asylum more precise and to over-ride the right of appeal against administrative decision. They believe the persecuted should retain the right to asylum but propose adding a clause to the constitution which would authorise the government to

draw up a list of countries from which legitimate asylum can be sought. Applicants from non-listed countries could be turned away on arrival.

The Social Democrats say that procedures can be speeded up without changing the constitution (for which its support is required). Earlier this month the "proceduralists" prevailed and a new attempt will be made to deal with doubtful cases within six weeks and to throw-out immediately those who are not recognised. The Christian Democrats remain sceptical and continue to press for the constitution change.

Refugees are, of course, a world problem not merely a German one and Germany's procedures will soon, in any case, have to be harmonised with other EC countries if there are to be no border controls within the EC. That will almost certainly mean a harmonisation "down" to the more restrictive practices elsewhere in Europe.

Whatever the outcome of the refugee debate some people, including liberal conservatives and greens, believe that a more comprehensive overhaul of immigration policy is required, which should start with the recognition that Germany is de facto an immigration country. They believe that the German blood policy of preference for the Aussiedler should be stopped and an immigration law established, including quotas for different countries, and automatic citizenship for those born in Germany.

The lack of an immigration law in Germany does seem to boost the number of pseudo-refugees who otherwise have no legitimate way into the

Most have taken basic jobs that Germans would not have filled

country. The current combination of liberalism over entry but neglect over integration is certainly unsatisfactory, and makes the asylum seekers more of a burden than they need to be.

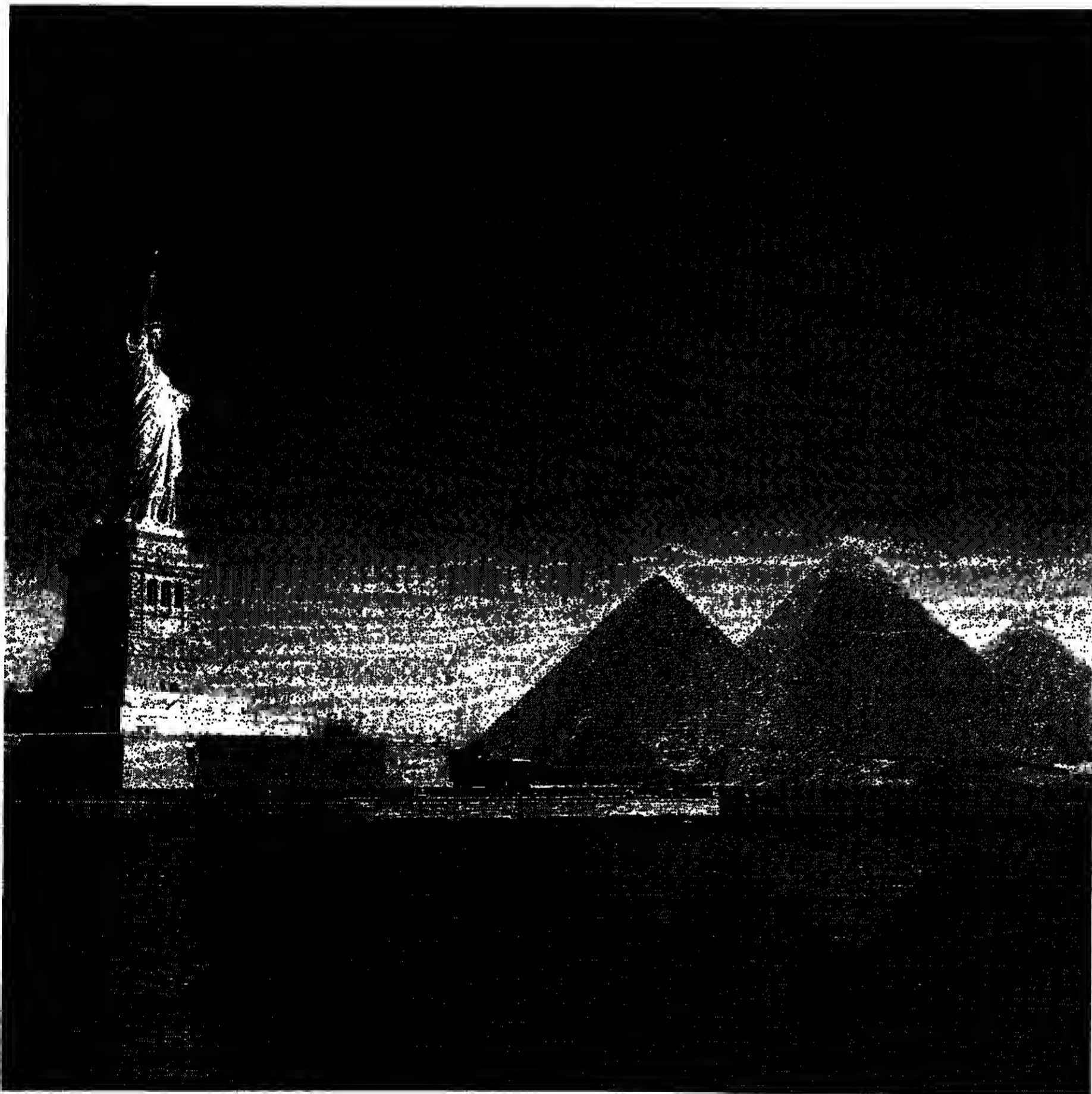
The Länder, including the new east German Länder, all have to take their fair share of asylum seekers and in 1989 paid out DM4bn to maintain them, the figure for 1991 may be as high as DM6bn. (Some have argued that east Germans tend to be more xenophobic, having lived for four decades in a closed society with very little contact with foreigners, and that the east should thus receive less than its fair share of asylum seekers. There is, probably, more xenophobia in east Germany but proportionately more homes have been attacked in west Germany).

In July this year the employment ban for refugees whose cases are still being heard was lifted, at least where no German or EC citizen wants the job, which should make some of them less dependent. The 90,000 recognised refugees and the 500,000 unofficially recognised already had the right to work. But members of the latter group often remain in a twilight world, continuing to live for many years in temporary asylum seekers homes and not sending their children to school. The degree of integration help they get is dependent on the varying regulations of the different Länder but has generally been as low as possible to dissuade people from coming in the first place. Integration support should probably be harmonised and taken over by central government. Asylum seekers may be a net economic burden but immigration in general has certainly not been.

Mr Hans-Peter Kläs of the IZ institute estimates that nearly half of the 1.5m new jobs created in west Germany in the last two years have been filled by Über- and Aussiedler. They have mainly taken basic jobs that west Germans would not have filled and that are themselves are often overvalued for. Thereby they have helped raise the overall level of economic activity.

Foreigners in general are also a net economic benefit partly because their average age is lower than the indigenous population. But whatever the benefits of a relatively open door policy the German public and politicians seem on restricting it.

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draw up a list of countries from which legitimate workers can be sought. Applicants from non-EU countries could be turned away on arrival.

The Social Democrats set up without changing the situation (for which the majority is required). Earlier this month, a new attempt will be made to deal with the problem within six weeks and is who are not recognised as Christian Democrats remain sceptical and continue to press for the constitution change.

Refugees are of course a world problem not merely a German one and Germany's procedures will soon, in one way or another, be harmonised with those of EC countries. There are to be no border controls within the EC. That will almost certainly mean a harmonisation "down" to the more restrictive practices elsewhere in Europe.

Whatever the outcome of the refugee debate, some people, including liberal conservatives and greens, believe that some comprehensive overhaul of immigration policy is required. That should start with the recognition that Germany is a country of immigration, not a country of emigration. The German policy of preference for the Aussiedler should be stopped and an immigration law established, including quotas for different countries and automatic citizenship for those in Germany.

The lack of an immigration law in Germany does seem to be the number one problem. Who therefore is responsible for the refugees may well be a

Most have taken back jobs that Germans would not have filled

country. The current coalition of liberals, over the past few years, has been particularly unsatisfactory as it has made the system seem more of a burden than a

by London, including the fact that Germany's share of the world market for cars and trucks has fallen from 1980 to 1990. The fact that the German car industry has lost its competitive edge is a serious problem. The current coalition of liberals, over the past few years, has been particularly unsatisfactory as it has made the system seem more of a burden than a



GERMANY'S health and social security system is one of the most generous and expensive in the world. Like much else in the country it does not slot neatly into the public/private or state/market categories: large parts of the system combine state regulation with service provision by private (or at least non-central government) agencies.

But that has not prevented a steady rise in contributions – for both employers and employees – to the health, pension and unemployment insurance funds. How to control inexorably rising costs, especially in health provision, has been the central theme of the past few years and will continue to be so for the foreseeable future.

A more current concern is how to finance one of the main holes in the system, the care of the elderly and disabled. And overshadowing that is the challenge of integrating 16m east Germans into the system.

Contributions to the three main funds are, for the vast majority of Germans, deducted

Integrating 16m easterners overshadows the need for more elderly care

directly from their monthly pay. In 1990, health, pension and unemployment insurance together claimed 17 per cent of pay; in 1991, it averages 36.75 per cent with employees and employers paying half each (roughly 18 per cent each).

Health insurance claims 12.2 per cent, unemployment 8.3, (recently raised from 4.3 to help pay for east German unemployment) and pension 17.7 per cent (reduced from 18.7 to compensate for the increase in unemployment insurance).

Reformers have, since the mid-1970s, had two main worries about these rising contributions. First, employers complain that they have helped to push up non-wage labour costs to over 80 per cent of wage

costs which is making Germany unattractive as a business base. Second, the growing proportion of old people in the total population means that fewer contributors will have to maintain an increasingly costly system at the beginning of the next century, especially in health and pensions.

At the end of the 1980s the centre-right coalition in Bonn produced reform plans for the financing of pensions and health care. The pension reform, although relatively modest, has been a success mainly because the government sought, and got, the co-operation of the opposition Social Democrats in making the system – run by about 20 quasi-independent funds – rather less generous.

The automatic link between pensions and rising pay levels had already been cut in 1978. But from the beginning of next year pension levels will be calculated on net pay rather than gross pay. Even more controversial, the pensionable age for men and women is being gradually raised.

Currently women can retire at 60 on a full pension and men at 63. By the year 2000 both sexes will have to go on working to the age of 65 or face benefit reductions. In international comparison pensions will remain high.

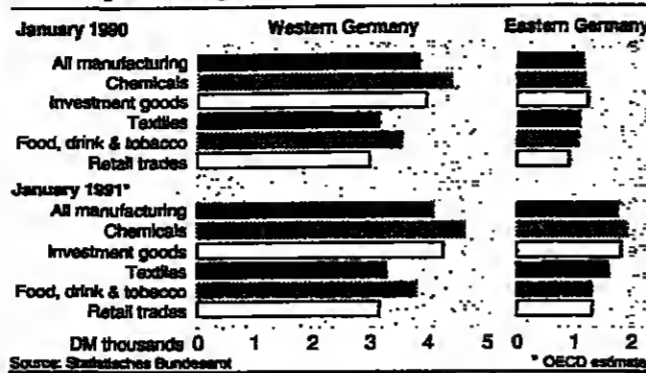
The average monthly pension for a man who has worked 45 years is currently DM1700 per month, which is sometimes topped up by company funds. In principle, the 20 main pension funds and the 1,153 health insurance funds are self-financing and independent of the state. The unemployment insurance fund, run by the Federal Labour Office, is not, and central government underwrites its large deficit.

Currently a fully insured unemployed worker gets 60 per cent of his or her previous wage for one year if married, 63 per cent if unmarried. After one year the respective figures fall to 58 and 52 per cent, where they stay indefinitely. An unemployed person will also usually have his or her accommodation paid for as well as health and pension contributions covered.

Welfare costs are spiralling, writes David Goodhart

Three years of discipline yield meagre results

Monthly earnings



A non-contributory means-tested safety net, *Sozialhilfe*, paid out mainly by local authorities, provides a top-up for people, especially those with large families, who fall below a certain level of income. It is health that has been the main battleground of reform in recent years and so far the reformers have lost against the vested interests who make a good living from the system as it is.

Germany currently spends about DM239bn on health every year, which is 10 per cent of GNP, up from 7.9 per

cent in 1970. Stripping out the costs to employers of paying six weeks full wages when people are sick, and other indirect costs, the figure is more like DM150bn, of which about one third goes on running hospitals, one fifth on non-hospital medical care and one-seventh on drugs.

Mr Norbert Blum, the labour minister, responsible for the 1989 health reform, aimed to cut spending by about DM14bn. Half of the savings were to go to holding down, even cutting, contributions and the other half was to go on providing services which had hitherto not been covered by the health funds, such as care of the elderly.

He intended to do this by

removing from insurance cover various minor items which people would in future have to pay for themselves, such as taxis to hospital and some drugs, by creating incentives for doctors to behave more economically, and by making the hospitals, run usually by local authorities or churches, more efficient.

In other words he intended to inject some discipline into the system which the fragmented health funds were incapable of doing on their own. Three years after the reform was introduced it is clear that there has been no structural change and this year contributions will have to rise again to cover a possible deficit of DM3bn.

For two years the funds did achieve surpluses of DM10bn and DM6bn (partly because of sharply rising incomes) and reduced the average contribution from over 13 per cent to 12.3 per cent. "The Blum reforms did hold down costs for two or three years but did not break the upward trend," admits one senior official in the new health ministry.

About half of the target DM14bn in cuts were reached. DM3bn was saved by cutting the insurance funds contribution to crowns and false teeth from 75 per cent to 60 per cent. A further DM700m was saved from the drug companies by ruling that for drugs over a certain price people would have to pay a share themselves. The effect was to reduce the price of almost all the targeted drugs far enough to

make them free again. The only drugs which remain above the payment line are those with large foreign sales, especially to the National Health Service.

However this rather successful technique has been applied to only about one-third of all drug types and has not been extended. Other fields where people now have to pay more out of their own pocket include: death money, taxis and ambulances, glasses, hearing aids and "cures" such as the system which allows people to go and unwind for four weeks in the Black Forest if they are suffering stress.

But hospitals have not been made more accountable for the money they spend, only one has been black-listed by the insurance funds, and doctors have learnt how to get round the new regulations on behalf of their patients. The health insurance funds, prone to short-termism, are merely relieved to be holding the line on contributions for a few years, and Chancellor Helmut Kohl has shown he has no stomach for another fight by taking responsibility for health care away from Mr Blum's labour ministry.

This year health spending is expected to rise by 9 per cent while health insurance income will rise by only 5 per cent. Rising contributions are inevitable again, and the failure of the health reform to create sufficient savings to pay for a comprehensive system of care for the elderly and disabled may also mean a brand new level of contribution. There is cross-party consensus that some sort of compulsory insurance contribution is needed to pay for a fairer and more rational system but there is no consensus on how it should work.

Hitherto people needing care have either been parked in hospitals (filling 100,000 beds according to some estimates) covered by a health insurance



East Berlin's long queue: added burdens for western taxpayers

system which is meant only for treatment, or relatives have looked after them or supported them in private nursing homes, or they are in local authority homes. The local authorities reckon they pay about DM9bn a year in *Sozialhilfe* for old people in homes, but there is a chronic shortage of staff because pay is so low.

With smaller, more mobile, families and an ageing population the care problem is bound to get worse. Mr Blum wants to introduce a fourth tier of "care insurance" contribution of 1.5 per cent of income, split, like the other three, between employer and employee. The contributions would then be paid out to three categories of

care-patient (determined by doctors): people who can remain at home who would get DM750 a month for ambulatory care; a middle group who would need to spend a lot of time in care who get DM1500 and a third group who get DM2000.

An average pension of DM1500 plus the care insurance of DM1500 would cover the average monthly cost of a place in a home of DM3000. German industry does not like this idea. It fears that like the other compulsory contributions the care insurance will creep up from 1.5 per cent, as indeed it has in Holland where it is now 4.5 per cent.

The BDA, the employers

body, has proposed instead that employees pay a fixed sum monthly – from DM25 for a 25 year old to DM88 for the over 60's. The employers, meanwhile, would offer a single payment of DM50m for the first 10 years of the system.

The Free Democrats (FDP), the junior partners in the ruling coalition, prefer a third model which would include an element of compulsory insurance but in a system organised by private sector insurance companies. The FDP seem determined to block Mr Blum so there is currently a political impasse. But one thing is certain, the "social" in the social market economy will go on getting more expensive.

West picks up a DM50bn bill for the first year of union

An expensive safety net to ease painful side effects

WEST GERMANY is committed, politically and constitutionally, to raising living standards above the level of the west German level as swiftly as possible, writes David Goodhart.

Not all the economic changes following reunification have been positive ones for east Germans – prices have risen, rents have nearly trebled, many have become unemployed for the first time – but they are at least now supported by west Germany's welfare system.

Pensions and unemployment benefit are not as generous in east Germany because contributions and benefits are income dependent and incomes are still about 60 per cent of the west German level. However, even the lower levels of benefit cannot be covered by east German contributions so there has had to be a large one-off transfer from west to east to kick start the system in the east.

Bonn has probably paid to the east more than DM50bn in the past year on pensions and unemployment benefit (plus training and short-time working subsidies). The average pension in east Germany is now about DM900 a month, and most pensioners enjoy a considerably higher standard of living than before unification even if their rents have been trebled.

The newly established east German pension funds were topped up last year by more than DM5bn from Bonn, and this year will receive a further DM9bn. Bonn will pay much more for east Germany's (averaged for the year) 1.4m unemployed and 1.7m short-time workers and for the expensive job creation and training subsidies. This will be partly covered by the April increase in unemployment insurance, throughout Germany, from 4.3 to 6.8 per cent (split between employers and employees) which will raise about DM23bn over the year and could be extended. To make that increase more palatable the pension insurance has been reduced from 18.7 to 17.7 per cent.

Topping-up is rather more difficult in health provision and east Germans will have to put up with a second class service for many years to come. Health insurance funds have been established along west German lines but they do not have the DM35bn that is required to equip east German hospitals and doctors to west German standards.

The east German Länder, who are now responsible for

most hospitals, do not have the money either. Health Ministry officials say that central government will pay out about DM15bn to the east German health system over the next six or seven years. The health insurance funds will also, presumably, run-up large deficits during the re-equipping period.

The drug companies have already been forced to make their contribution by government enforcement of a lower

price for some drugs in east Germany.

The old health system there was good by Soviet bloc standards and could even compete with the west in one or two specialist fields.

It had a far lower proportion of doctors per head than west Germany but a far higher proportion of nurses per head (partly because of the lower level of mechanisation). Many of those nurses have been moving west over the past year, lured by much better pay, to plug the gaps in the west German nursing service.

Given the theoretical surplus of nurses in east Germany, it should not matter too much. However, the surplus-assumes, unrealistically, that east German nurses have similar productivity to west German ones. Some east German hospitals now have a serious shortage of doctors and nurses.

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GERMANY 9

Wave of lawlessness sours easterners' first year of freedom

From euphoria to envy

EAST GERMAN motorists used to drive much the same way as they conducted their lives - with discipline and obedience.

The collapse of Communist rule, however, led to near chaos on the roads of east Germany, accurately reflecting the upheaval in east German society.

Forgotten are the years when millions of Trabants and Wartburgs pattered up and down the pot-holed Autobahn closely monitored by an army of policemen in and out of uniform. Few dared drive faster than the prescribed limit of 100 km per hour.

The ultimate in daring was to display a car sticker from the West proclaiming that one had a *Herz für Kinder* (a heart for children). Communist party members even took their children to task for waving to the occupants of passing Western cars.

Today, the law of the jungle rules the roads of east Germany. East German owners of new Mercedes, BMW and Audi cars thunder down the rutted Autobahns at 160 km an hour, lights flashing at every slower-moving car which dares to remain in the passing lane.

Even Trabants and Wartburgs manage speeds hitherto thought unsustainable for them. Nowhere is a traffic policeman in sight. With rules and regulations in a state of suspension, east Germany's road fatality rate has soared to among the highest in Europe. The carcasses of abandoned, hurled-out Trabants dot the countryside.

The breakdown of former constraints runs like a thread through post-Communist east German society. In Leipzig, Dresden and Halle, what were among the safest streets in the world at night are now ruled by gangs of criminals and punks.

Public order and obedience, previously enforced by a finely-spun web of officials and Stasi informers, has disintegrated into chaos.

Ordinary east Germans feel preyed upon by unscrupulous Westerners and threatened by lawlessness. Envy, fed by widening differences in income, is widespread.

The recent violent attacks on foreign workers and asylum



All change: east Berlin children get their first western books

seekers in Hoyerswerda and other east German towns came as no surprise to Dr Hans-Joachim Maaz, head of the Psychotherapeutic Clinic in Halle. While treating patients over the years he was struck by the "fascist potential" which lurked just below the surface of their socialist education. Suppressed aggressiveness, submissiveness and total reliance on authority were elements which had poisoned relations among east Germans.

While being forced to listen to abstract lectures about "international solidarity," they deeply resented the Poles who swarmed across the border in the 1970s to buy up goods in East Germany. Economically, east Germans for the first time in their lives must cope with an overabundance of goods for sale.

At the same time, however, they are able to afford only a small portion of them. While Westerners are accustomed to this dilemma east Germans are not. They grumble about their predicament and in doing so annoy west Germans who accuse them of acting like spoiled children.

East Germans vent most of their ire, though, on their former Communist bosses who often continue to manage the companies. Referred to collectively as *Seilschaften* (literally: roped parties), these willing converts to capitalism are feared as they frequently are the first to advocate massive layoffs.

Many east Germans had illusions of setting up their own business after the Wall fell. Kleinmachnow, the east German suburb adjacent to where I live in west Berlin, early last year blossomed with freshly-lettered signs put up by residents outside their homes. They offered their services in everything from upholstery to toy repairs.

Most of the signs have since vanished. Similarly, in the autumn of 1989, the more than 100,000 private tradesmen and retailers in the old East Germany had visions of a golden era which failed to dawn. Many small grocers and other retail shops were forced out of business by the arrival of large west German chains.

Mr Arno Bernott, a cabinet-maker in Rostock whose shop was established by his father in 1948, early last year took in a west German partner, Mr Ludger Krehber, in order to survive in the harsh new world of competition. Mr Krehber

explained that while east and west Germans spoke the same language they were "world's apart".

Mr Bernott remarked that east Germans had worked hard, to which Mr Krehber added "but ineffectively". East Germans were rarely deeply involved in their work, an important reason why small businesses there often failed, he suggested.

The Mittelstand (small and medium-size producers), which was supposed to play a key role in the transformation of the economy, has also had a hard time getting established despite pledges of support by state and federal government. Typical of the experiences of potential small-scale producers was that of Mr Ingo Beyer.

Mr Beyer and several other east German tradesmen signed a preliminary contract with the Treuhand privatisation agency allotting them workshops in the GRW electronics company in Teltow, a suburb of Berlin. Mr Beyer agreed to employ 13 workers and four apprentices and to pay DM125 per square meter of property. But the Treuhand decided otherwise and sold the entire company to a group of west German property speculators for DM1.

Politically, east Germany lost the chance of a genuine transformation from within when the tiny dissident movement which helped topple the Communist regime was swept aside by the established west German parties. Long accustomed to obeying their Communist leaders - although grumbling while doing so - east Germans quickly transferred this obedience to their new democratically-elected leaders.

"Write that we support Chancellor Kohl" I was frequently urged by east Germans anxious to prove their loyalty to the new order. The subsequent disappointment with Mr Kohl among many east Germans failed to politicise the population but instead led to even deeper resignation. East Germans retreated into an apolitical shell remarkably like that with which they surrounded themselves for more than 40 years of dictatorship.

Leslie Colitt

Leslie Colitt on a town that likes the roar of aircraft

MiG airbase seeks a new role

FOR nearly 40 years, Soviet airforce fighters flew ear-shattering training flights directly over Jüterbog, leaving this medieval town with some of the most noise-plagued residents in east Germany.

The infernal racket day and night, all week long, abruptly abated earlier this year when the Soviets agreed to restrict practice flights to two days weekly until they pull out in 1994. Ironically, Jüterbog is now vying to attract Berlin's planned new international airport to a sprawling former Soviet Army training area south of the town.

Most of its 37,000 inhabitants support the bid as they see no other alternative to creating jobs. "It is our only chance" Mayor Bernd Rüdiger insisted.

"The airport would mean negligible noise pollution for the population," Mr Manfred Dietz, head of the Department of Environment and Agriculture, argued.

Jüterbog, which is 80 kilo-

metres south of Berlin, is competing with three other communities for Berlin International Airport which is to be completed by the end of the decade. The area that gets the airport will prosper, with service industries sprouting within a radius of 20kms or more.

Jüterbog is a late entry in the race for the airport. The training site was so crummed up and polluted by tanks - first Wehrmacht, then Soviet - that Mayor Rüdiger said it resembled the Sahara. Even the annual rainfall was well below that of the surroundings.

Jüterbog will have plenty of commercial sites to offer when the Soviets depart along with some of the older housing they occupied. The new buildings were in terrible shape, Mr Rüdiger said, and could only be used temporarily. He told of a husband of ethnic Germans from the Soviet Union who were to be housed there until they could be permanently

relocated. But on seeing the Red Stars on the nearby Soviet Army gates they panicked and demanded to be taken away.

Relaxed and wearing a flowered sport shirt, the young mayor displayed a self-assurance which is still rare in east Germany. A civil engineer without previous party affiliations he was elected on the liberal Free Democratic (FDP) ticket. Mr Dietz, a member of the Christian Democrats (CDU), served as a local official under the old Peasant's Party which was absorbed into the CDU after the collapse of the Communist regime.

All parties in Jüterbog govern in a coalition which is typical of consensus politics in east Germany.

Unemployment is a relatively low 11 per cent as Jüterbog has no factories. But it serves as a rail junction so that the largest employer is the Reichsbahn (east German railway), providing relatively secure jobs for more than 700 people.

Jüterbog District, lying in the middle of endless grainfields, lives from agriculture. State subsidies for modernisation are still flowing into the 20 large agricultural co-operatives, formerly known as collective farms, which still work nearly all of the land. But farming is expected to fall on hard times when subsidies from Bonn run out in 1992.

Mayor Rüdiger said he had no complaints about the financial aid Jüterbog was getting, citing the DM 1.8m this year from the German Government's *Aufschwung Ost* (Recovery East) programme.

The town is also getting DM4m up to 1994 in construction funds and nearly DM1m to rescue its crumbling medieval centre. The Town Council, anxious to preserve this architectural heritage, has refused to allow more than two small supermarkets to move in. The aim is to prevent property speculation and the resulting depopulation of town centres so widespread in the West.

Public sector employees may lose their privileged status

Warning signals on the railways

CAPITALISM may be about to disturb some of Germany's several million *Beamte*. The term is best translated as public servant but signifies a whole way of life: the *Beamte* are privileged (job for life and special pension benefits) and conservative (no right to strike) and embody the virtues of duty and thoroughness with the vices of pedantry and inflexibility.

The new wave of interest in shaking up Germany's giant public corporations, in particular the Bundesbahn, the federal railways, and the Bundespost, (already subdivided into Post, Postbank and Telekom in its 1989 reform), is aimed at the cosy world of the *Beamte*.

The problem is that both the Bundesbahn and the Bundespost are loss-making corporations facing growing competition, at least at the fringes of their businesses, but the strait-jacket of centrally-agreed *Beamte* pay and conditions makes it difficult for them to attract the right people and to instill private sector attitudes.

Both Mr Christian Schwarz-Schilling, the Post Minister, and Mr Heinz Dürr, head of the Federal Railways, have recently called for the privatisation of their organisations or at least parts of them. That does not mean they are in favour of British Telecom-style sell-offs, although a partial flotation of Telekom might eventually be possible, rather they want to become private wholly owned by the state.

Mr Dürr is under special pressure because he must soon integrate the east German Reichsbahn and cannot deny their workers *Beamte* status if the Bundesbahn employees still enjoy it. He says that if the Bundesbahn was an AG it would be able to react much faster and more effectively claw back traffic from the over-filled roads. He cites the case of Kombiwagon GmbH, a private company in which the Bundesbahn has a large stake,

which took over the procurement of road-rail vehicles for the Bundesbahn and quickly increased supply and forced down prices.

For the Bundespost the main competition area is Telekom which is now having to compete with the private sector in all "value-added" services and even in certain parts of the telephone service, most notably mobile phones. Telekom's top managers complain that it is increasingly difficult to get the right technicians and managers in these areas because there is no way round the *Beamte* rules on pay.

To make the change from a corporation to an AG (like the British plc) requires, however, a change to the constitution which states that rail and post be directly administered by the state. That requires a two-thirds majority in the Bundestag and thus the support of the opposition Social Democrats.

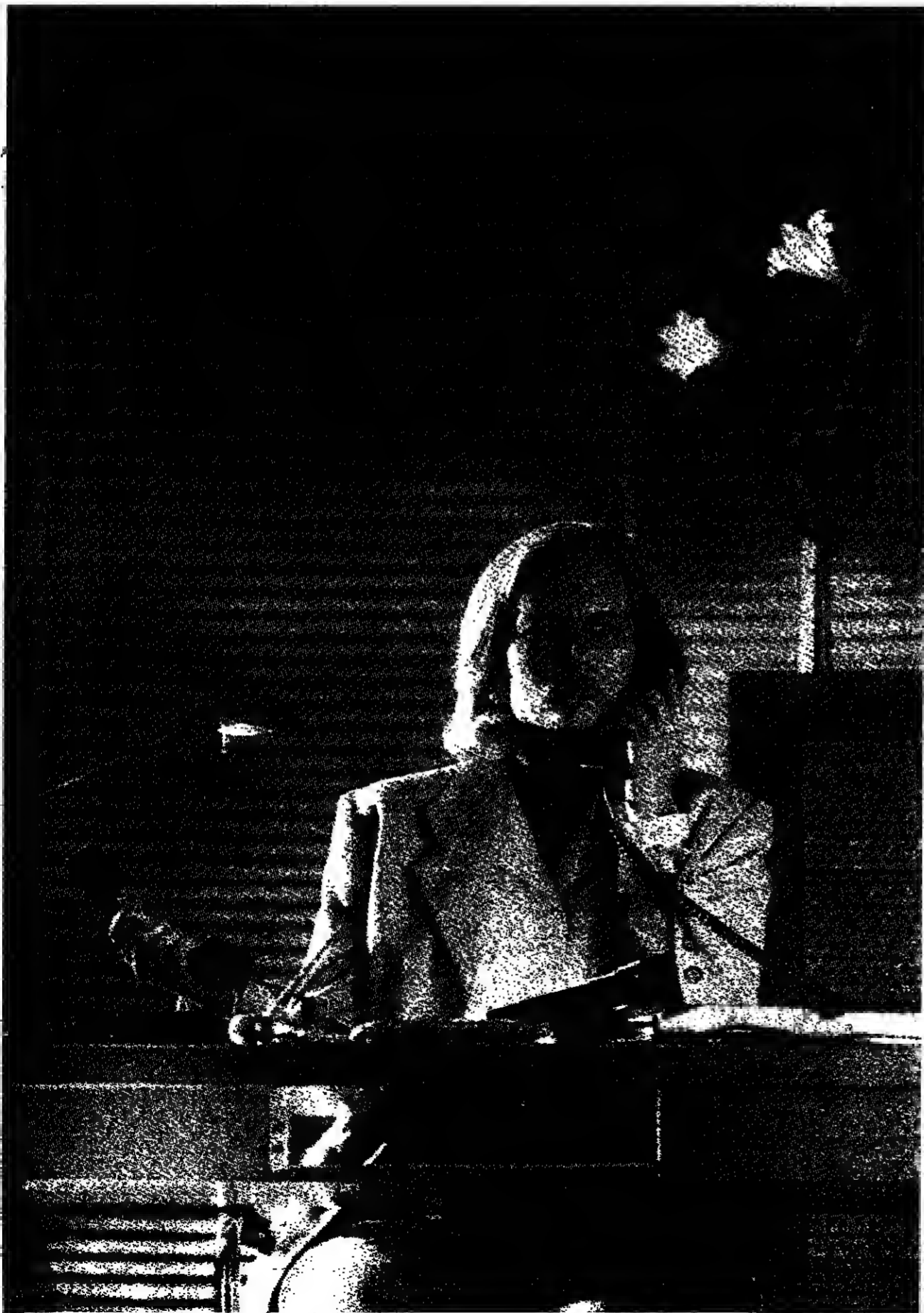
Until recently such support would have been most unlikely

but Mr Björn Engholm, the new Social Democrat leader, recently speculated about ending *Beamte* status in parts of the public service and Mr Arne Böttcher, the Social Democrat spokesman on Post matters, is a supporter of change.

If Telekom was allowed to become an AG it might be the first step towards full privatisation as was the case with British Telecom. However Mr Schwarz-Schilling continues to argue against any further erosion of Telekom's telephone monopoly on the grounds that monopoly profits are needed to pay for the modernisation of the east German network.

But senior Telekom board members such as Mr Gerd Tenzer accept that the monopoly will go in the near future as a result of pressure from the EC, another good argument, in his view, to prepare Telekom as quickly as possible for the private sector.

David Goodhart



Re: Foreign Exchange Trading

Some are never
at a loss for words.

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GERMANY 10



A gentler pace after the great upheaval

Dust settles but shocks continue

MR THEO WAGEL, the German finance minister, made an interesting choice of words when he painted his broad-brush picture of German economic prospects at the International Monetary Fund annual meeting in Bangkok this month.

The present, "somewhat more gentle pace" of growth, he declared, was not a change in underlying trends, merely a signal of a return to normality. The implication was that the worst of the upheaval following the political monetary and economic unification of Germany was past and the "business as usual" sign was being dusted off.

However, violent aftershocks are still rippling through the economy, unsettling politicians, forecasters, and the Bundesbank.

Growth in the west has faltered, slowing to around 3 per cent in the second half, while the headline plunge in the east has slowed. The downward line on the chart is flattening out, and a modest upturn is promised, and expected to continue next year.

Best - and highly qualified - estimates suggest that western Germany in 1992 will range between 1.6 per cent and 2 per cent, all below the 2.2 per cent predicted in an apprehensive OECD report in July.

Government, employers and central bank officials could not

have been more forceful in their ritual speeches in the run-up to the 1992 pay round on the danger of a pay and price spiral.

Inflation, after hitting a nine-year high in July at 4.4 per cent, eased to 3.9 per cent in September. But there are ample signs that the situation may deteriorate. Rewe, one of the country's largest retail chains, recently said the shopping boom was over and that future sales would be depressed by large price increases working their way through the distribution chain. Tobacco taxes go up next March, TV licence fees are to be increased on January 1, and there is concern that a planned 1 per cent increase in value added tax from January 1993 will prompt preemptive compensatory price demands.

Rents in western cities are rising by 20 per cent and a four-fold increase was imposed last month in the east. According to Deutsche Bank, tax and pay increases will push inflation close to 5 per cent by next spring. Other forecasts suggest that 1992 pay rates increase by a further 7 per cent, 5 per cent inflation "will become the norm".

Unemployment in the west is forecast to average 1.8m after 1.7m this year because continuing migration from eastern Europe and east Germany will cause labour supply to increase more quickly than demand.

By contrast, there is a measure of optimism that Germany will be helped along the road

to Mr Waigel's vision of normality by marked swings in international trade as trading partners recover from recession. West German exports, after declining by 1 or 2 per cent this year, are expected to show a real increase of 4 per cent in 1992. Sales to EC countries should go up by about 7 per cent.

Imports, already slackening as east German consumers' immediate demands are filled and spending power is reduced, will probably increase by a real 3.5 per cent, compared with 11 per cent this year. Net result, according to Deutsche Bank, should be a doubling of the aggregate trade surplus to DM25bn.

There is optimism, too, about prospects in the east, but there are also many variable and unquantifiable factors still to come into play. There is general agreement on two points: that the economic brushfire which swept the former DDR is virtually hushed out, and that there are stirrings of growth. The question of when that growth will become self-sustaining is little discussed.

Official unemployment figures of 12 per cent, compared with 5.4 per cent in the west, mask the reality. There are some 1.5m people described officially as working short-time, but many are effectively unemployed and waiting for the axe to fall. A further 450,000 easterners commute daily to jobs in the west, there are 300,000 on vocational training courses, and more than

220,000 have taken early retirement this year on part-pensions until they reach full retirement age.

Opportunities are rare, and while the Treuhand privatisation agency has successfully disposed of some 4,000 enterprises, it still has a further 5,000 on its hands, and there are difficult days ahead for some, especially those in heavy industrial sectors like the Baltic shipyards and the steel industry which are ill-equipped to compete in tough world markets.

Against this grim background, real economic growth in the east is likely to hover around 3 per cent in 1992, after a fall of more than 20 per cent this year. The driving force is construction, helped along by an emergent service sector. In their train there is a growing corps of mainly west German investors prepared to put up with endemic administrative incompetence and uncertainty over land and property ownership and stake their claims. According to the Ifo institute in Munich they have already announced plans to increase investments in the east from DM24bn this year to DM35bn next. They have been encouraged by government support for exports to traditional markets in the Soviet Union - and also by the longer-term prospect of being in the right place and with the right connections for expansion even further to the east when the time is ripe.

Christopher Parkes

THE TREUHANDANSTALT AT WORK

Pitfalls of a clearance sale

JUST as the Treuhandanstalt was winning unaccustomed praise for successfully selling former state companies, the east German privatisation agency was rocked by a series of embarrassing disclosures.

The Treuhand was accused of virtually giving away ailing industrial companies to investors who were less interested in production than in the valuable commercial property. Projects by Berlin officials and the public forced the agency to cancel a controversial sale last summer of the Narva light bulb factory in east Berlin. The group of real estate investors who bought Narva showed no interest in rescuing it but stood to profit enormously from the company's prime property.

In a similar vein, the GRW electronics company in Teltow, a Berlin suburb, was sold by the agency for a nominal DM1 to a west German investor. This was not unusual as the buyer had pledged to invest tens of millions of DM's and employ at least 1,500 workers. But following critical press reports of favouritism in the sale, a senior Treuhand official responsible for the deal was suspended.

The agency subsequently admitted it had grossly undervalued the property.

While the Treuhand insisted it was capable of investigating internal malpractices, it appeared that it was not subject to meaningful control. With a budget of nearly DM38bn and 3,300 employees, the mammoth holding company is expected to sell 3,400 companies by the end of this year out of the 8,000 it inher-

ited. Foreign investors bought 150 companies up to the end of last August, with France leading the pack with 46 companies. Switzerland followed with 20 companies, the Netherlands 20, Belgium 18, Sweden 17 and Austria 15.

Nearly 8,400 companies remain on the Treuhand dole, however, as many oversized companies were broken down into smaller units. While nearly two-thirds of the remaining companies are deemed capable of survival, the rest face closure. At the same time, the Treuhand faces renewed political pressure to save tens of thousands of jobs.

The agency's recent sales record is impressive measured against its performance last year when only 350 companies were privatised.

Founded in February 1990 by the short-lived Communist Government of Mr Hans Modrow, the Treuhand spent its first three months supervising the transformation of state enterprises into joint stock companies. The turning point for the agency came in August of last year when Mr Dietrich Karsten Rohwedder, the former head of the Hoechst steel company, was appointed president.

He carried out a sweeping reorganisation, setting up 15 regional Treuhand offices and hiring senior west German company executives to key posts in the agency. Inevitably, though, this led to conflicts of interest as the new Treuhand DM38bn and 3,300 employees, the mammoth holding company is expected to sell 3,400 companies by the end of this year out of the 8,000 it inher-

1990, the Treuhand's new owner, the German finance ministry, established the priority of privatisation over restructuring state companies.

But by last spring, Bonn had a change of heart. The realisation struck home that closing down loss-making industrial companies, with the loss of thousands of jobs, placed a greater long-term burden on state finances than restructuring the companies with the help of state-backed loans. Privatisation and restructuring were henceforth deemed to be of equal importance.

Bonn stepped in to save the industries of the important Halle-Leipzig area

The murder of Mr Rohwedder by terrorists last April brought to the helm Mrs Birgit Breuel, his deputy and a former CDU Finance Minister in Lower Saxony.

Although her credentials were those of a free marketer, she has come to accept the social role of the agency which is the largest employer in east Germany.

Industrial companies, particularly in the electronics, chemicals and shipbuilding sectors, present the most difficult economic and social problems for the Treuhand. The trade unions attacked it for owing to private firms from west German shipbuilders who feared competition from east Germany.

Robotron, the largest electronics company, is to be closed down this year with the loss of 9,000 qualified jobs.

Nearly DM1bn is being poured into the chemicals sector this year by the Treuhand to cover the losses of the four main producers. Bonn decided to save the obsolescent companies but to a highly-reduced form with 30,000 employees.

Behind the rescue was the realisation that their collapse would have de-industrialised the important Halle-Leipzig region. Above all, Bonn feared mass discontent among the inhabitants.

The Treuhand did not need to do much selling in order to placate the relatively few plants among the companies it holds. Western companies wasted no time in conducting their own investigations of the companies, only consulting the Treuhand in the second stage of deliberations. But even with the more desirable companies, the successful bidders were those who agreed to make the largest investments.

Price usually paid a negligible role. The Treuhand assumed 70 per cent of former company debts as well as liabilities arising from environmental damages. The motivations for Western investors to buy east German companies were varied. They ranged from gaining access to public contracts to stifling potential Eastern competitors and preventing other Western companies from gaining a foothold.

Management buy-outs, at first neglected by the agency, are seen as an important means of privatisation. More than 500 companies, mainly small and medium-sized ones, have been sold through MBOs.

Leslie Collett

INGRID MATTHAUS-MAIER, the SPD's finance spokesperson, talks to Quentin Peel

Seasoned critic of numbers and politics

MRS INGRID MATTHAUS-MAIER, Germany's shadow finance minister, has a blackboard in the corner of her office overlooking the Rhine, on which she scribbles charts and statistics to illustrate her thoughts.

She is not an economist, an accountant, or the follower of any other numerate profession. But she obviously enjoys number-crunching. Before she became a politician she was a judge.

She has also been deeply involved in the politics of German economics throughout her political career, ever since she became, at the age of 34, chairman of the finance committee of the German Bundestag.

That was back in 1979, and Mrs Matthäus-Maier was then a member of the Free Democrats (FDP), junior member of the coalition government with the Social Democrats (SPD). And that was before the traumatic days in 1982 when the coalition collapsed, and Mr Helmut Schmidt was overthrown as Chancellor.

Mrs Matthäus-Maier resigned from her party in protest, convinced that they were the real culprits in the crisis. "I was there for the whole affair of dismantling subsidies on the FDP side," she says. "All the big cuts the SPD went along with. But the FDP wanted to get out of the coalition because the social democrats were slipping lower and lower in the local elections."

Later that year, she crossed the floor and joined the SPD, and has never looked back. Today she is spokeswoman on finance, and deputy leader of

the SPD group in the Bundestag. But she refuses to be compartmentalised within the party.

"There isn't the drawer to put me in," she says disarmingly. "I'm on the left wing on issues like the environment, and nuclear energy. On money, I'm a right-winger, on taxes and so on. I think that is no bad thing."

She is certainly a cogent and coherent critic of Mr Theo Waigel, the finance minister, and his attempts to prove first that unification was not costing the money it really was, and second to disguise the real size of the public spending deficit being run up to finance it. Yet ironically for a critic for the left, she tends to be just as tough as any right-winger in attacking his inability to control that deficit.

It is ironic too that it is the very issue which the SPD-FDP alliance collapsed in 1982 - the dismantling of state subsidies - which is once more at the centre of the budget agenda. For thanks to the massive spending demands in the

In 1982, she crossed the floor from the Free Democrats and has never looked back

former East Germany, the only way to control the deficit now is to find spending cuts in the west. And that is really just as tough for Mrs Matthäus-Maier and the SPD as it is for the government.

She has focused above all on

the defence budget, and the much greater savings that can and should be made now the Cold War is over. She has singled out the European Fighter Aircraft, known as the Jäger in Germany, as enemy number one to be axed. And she has also attacked a coalition for choosing this time of budget stringency to introduce a whole raft of tax cuts for businesses, cutting its revenues by more than DM6bn.

"The government says we need the cuts for our companies to be competitive for the single (EC) market at the end of '92," she says. "I don't think German enterprises are that uncompetitive. Look at Britain, where cuts in tax have not helped competitiveness, they have just meant a drop in infrastructure spending, which has weakened the economy."

"Of course we are not a low-tax country. But nothing comes for nothing. I believe there are no grounds to introduce these new tax cuts for industry right now. It is anti-social."

She is also critical of Mr Jürgen Möllemann, the economics minister, for his headline-snatching tactics in campaigning for subsidy cuts.

"It is all hot air," she says. "There is no question but that we must save money in the old Bundesländer. But what Möllemann is doing is counter-productive. Take the coal industry."

"Everyone knows that the production must come down. But he makes such a song and dance about it, he puts up everyone's back. He conducts



Mrs Matthäus-Maier: a great zest for dissecting Government statistics

negotiations in the wrong way."

And then she accuses the coalition of trying to put all the subsidy cuts on industries like coal and shipbuilding - "one our supporters" - and protecting the conservative

German agriculture industry yet again - "their own customers".

Thanks to the coalition's miscalculations of the cost of unification, Mrs Matthäus-Maier has had something of a field-day for the past year.

"Now people know that the government did not tell the truth," she says.

"Huge illusions were created on both sides of Germany. They said it would all change quickly in the east, and it would not cost anything in the

KEY FACTS		
Area	356,900 sq.km.	
Population	79,070,000	
Head of State	President Richard von Weizsäcker	
Currency	Deutsche Mark	
Average exchange rate	1989 \$1 = 1.8800 1990 \$1 = 1.6160	
ECONOMY		
	1988	1990
Total GDP (\$bn)	1,181.3	1,487.9
Real GDP growth (%)	3.8	4.5
GDP per capita (\$)	19,200	24,170
Components of GDP (%)		
Private consumption	54.0	53.5
Gross fixed investment	20.9	21.9
Government consumption	18.7	18.2
Exports	35.1	36.1
Imports	28.7	29.7
Consumer prices (% change)	2.6	2.7
Unit lab costs (% change pa)	1.0	2.5
Ind. wage rates (% change pa)	1.0	5.8
Ind. production (% change pa)	4.9	6.1
Unemployment (% of lab force)	7.9	7.2
Reserves minus gold (\$bn)	60.71	67.90
Narrow money growth (% pa)	6.3	4.5
Broad money growth (% pa)	5.7	4.5
Discount rate (% pa, av)	8.0	8.0
Govt bond yield (% pa, av)	7.09	8.88
FT-A index (% change)	+34.1	-20.1
Budget deficit (\$m)	3,990	18,564
Current account balance (\$m)	57.2	48.1
Exports (\$bn)	341.3	412.0
Imports (\$bn)	289.5	346.7
Trade balance (\$bn)	71.8	65.3
Trade (1990, % by value)		
France	12.7	11.7
Italy	9.1	9.3
Netherlands	8.2	10.1
UK	8.3	8.7
EC	47.8	51.7

Source: IMF, Datastream, EIU, OECD.

Half the roads of east Germany need replacing or overhauling, writes Christopher Parkes

Potholed country offers years of work

THE main highway from Stralsund, on the Baltic coast, to Berlin is almost exactly 200 kilometres long. Such a journey in west Germany might take a couple of hours. But on a clear day in October the trip from seaside to capital took seven hours.

For most of its length the road is almost exactly two car-widths across: part cobble, part concrete, part asphalt and part dirt. It is heavily potholed and crisscrossed with large and threatening trees for most of its length.

The traffic is light and mixed: bicycles, Red Army trucks, clapped-out Trabis, assorted livestock and farm tractors jostle in slow motion with new Audis and holidaying Swedish Volvos.

But the endless series of make-do-and-mend repairs, and meandering diversions make for painful - if picturesque - progress.

There are about 50,000km of roads in eastern Germany, and, according to the authoritative Ifo research institute in Munich, half need extensive repair or replacement if they are to play a western-style role in the infrastructure. That the number of road deaths and injuries in the newly-motorised east has doubled since 1989 (the figures are still climbing) underlines the urgency of the task confronting the German construction industry.

Add in the work needed on the east's ramshackle railway network, the 1m homes offi-

cially declared uninhabitable, collapsing sewers and water distribution systems, plus a shortage of 1m homes in the west of the country, and it is easy to understand why Mr Hermann Becker, president of the HDB building industry federation, declared earlier this year: "We need to take a deep breath."

Western taxpayers, meanwhile, already burdened with extra levies to subsidise German unification, are indeed holding their breath. According to Ifo, the cost of bringing the east's existing transport

Frequent meandering diversions make for painful, if picturesque, progress

infrastructure up to the level of that in the west - excluding extensions - is more than DM200bn. Add in the water and drains, new roads to link the two halves of the country, environmental works, and the figure soars over DM500bn. In the private sector, according to the Landeshaushaltsrat, another DM600bn is needed over the next five years to

rebuild the east's housing stock. Little wonder that building sector shares have been star performers this year, and that the eastern construction industry has been nominated as the locomotive to drag the eastern economy out of the black hole. Even customarily conservative government ministers declare that growth in the sector next year could exceed 10 per cent, compared with the long-term average growth in the west of around 3 per cent annually. Executives at Bilfinger + Berger, Germany's third highest construction group, confidently predict 10 per cent and more annual growth for the foreseeable future. At the end of the first half of the current year it had record orders totalling DM6bn on its books.

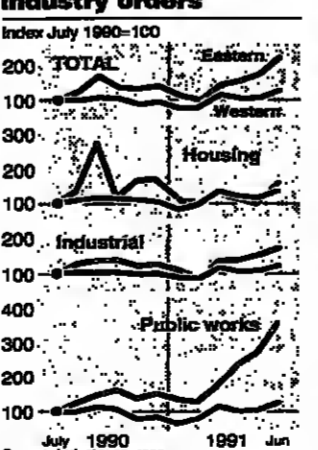
The prospects are stunning and daunting at the same time. Established builders and suppliers are increasing capacity, rounding up capital, hiring up smaller operators, and struggling to establish crucial materials depots along the roads and railways they are there to rebuild. State governments and local authorities are desperately trying to sell off public housing to raise funds for the

work ahead. But even at 15,000 for a reasonable dwelling, the Leipzig housing authority is finding few buyers to support a plan to modernise 50 per cent of its housing stock with earnings from the sale of the other half. Officials in Rostock report similar reluctance among tenants who say the authorities must modernise their homes before they will contemplate buying.

High interest rates (mortgage rates have risen about three percentage points in the past three years), rising land costs, confusion over property ownership in the east, and inflation-plus wage demands from the construction workforce add to the complications. IGB Bau, the main union, recently reinforced with 325,000 new east German members, is demanding pay parity with the engineering unions, and other privileges such as a 35-hour week and guaranteed winter weather pay for when work has to stop.

But progress is evident everywhere. In the field of corporate restructuring, for example, Walter-Bau, a private company which has taken over a 2,000-worker company in Dresden, and saw profits increase three-fold last year, is to be

German construction industry orders



Source: Industry sources

floated on the stock market shortly. Dwydaga, a quoted builder, earlier this year bought the 8,000-worker Union-Bau in Saxony, east Germany's biggest construction company. Braas of Frankfurt, Germany's leading roofing materials company, which is controlled by Redland Tiles, this month acquired up brickworks at Narsdorf and

Lübschütz near Leipzig, to add to its recent collection of four eastern tile factories. RMC, another British entrant, is present all over the east and is established as a leading supplier of aerated concrete products.

On the ground in the east, every road and rail track is lined with newly erected sand and aggregate dumps, cement stores and concrete plants. Even the smallest villages boast do-it-yourself superstores crammed daily with home-owners and small builders carting away bathtubs, sanitary-ware and trailer-loads of breeze blocks. A pontoon roadway linking the Baltic holiday island of Zingst with the town of Barth runs alongside a life-threatening steel bridge awaiting replacement. A 40km diversion around Oranienburg, just north of Berlin, steers traffic away from the reconstruction upheaval which has brought the town to a standstill.

That rusty relic of the command economy's neglect is just one of the 1,300 eastern bridges which need, according to Ifo, to be completely rebuilt. Many of the other 4,600 need extensive repair, as does more than half of the 48,000km road network,

and a similar proportion of the 36,000km maze of drains.

Meanwhile, the people reportedly shiver in their shoddy, overheated homes. More than 40 per cent of the east German housing stock pre-dates the first world war, compared with 19 per cent in the west. More than a quarter of homes have no bath, 32 per cent have no inside lavatory and only 40 per cent have central heating, and yet the tenants living in these antiquated circumstances are rapidly having to come to terms with paying modern-day rents. A four-

The west's housing boom has slackened under pressure of interest rates

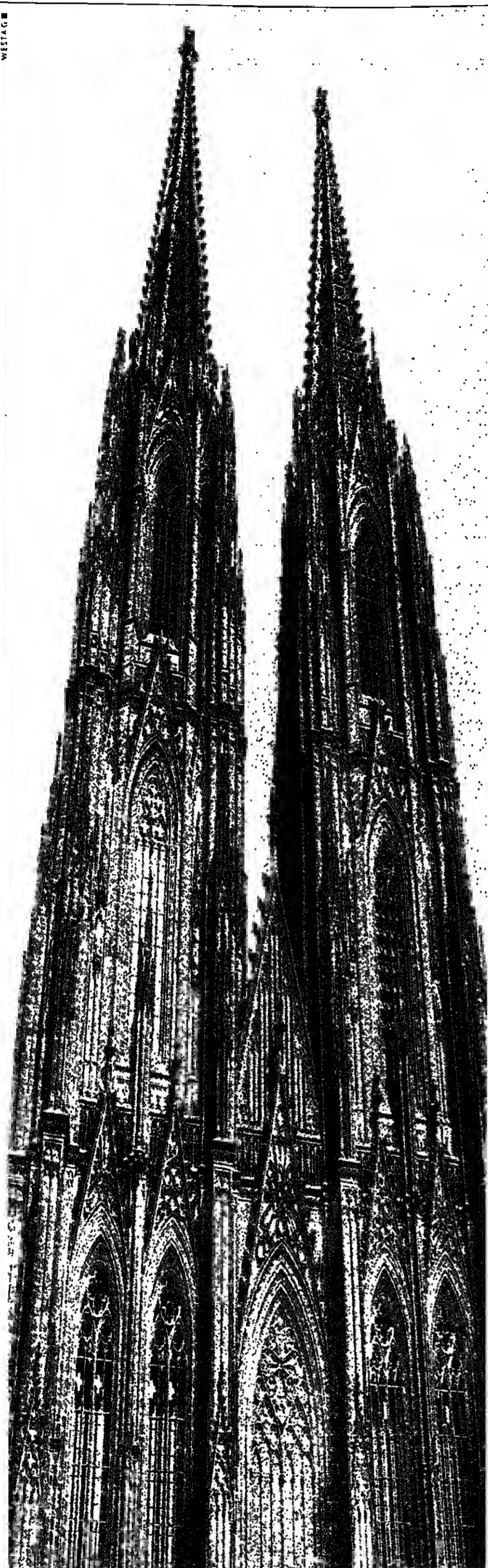
fold average increase imposed at the beginning of October roused a fresh chorus of complaints that the Ostis were being squeezed too hard. Even so, exchequers in the five new eastern members of the Federal Republic are still paying out DM1bn a month to keep public housing authorities afloat, and in Berlin, even before the October increase,

west. They were wrong on both counts. Finding the policies to put it all right, of course, is much more difficult. The SPD would also have to throw a lot of money into the east. It pushed hard for the idea of job-creation schemes, and the

coalition has now grabbed its clothes. Forging a clearly different identity is likely to prove a challenge. For the time being, however, Mrs Matthäus-Maier is obviously enjoying her role in pulling Mr Waigel's numbers to pieces.

400,000 people were drawing social security payments to help them keep up with their rent. The housing boom in the west, which took off in 1988 with a 14 per cent increase in building permits, and continued over the next two years with rises of over 20 per cent, has slackened lately under pressure from interest rates and a 7 per cent rise in building costs this year. In the first quarter of 1991, the construction industry started some 25,000 new homes in the west, 8 per cent more than in the comparable part of last year, but Bonn's target of 340,000 new homes a year (plus 100,000 in the east) will not be reached at that rate. The government has responded quickly with new proposals to keep construction going.

This month, for example, Ms Ingrid Adam-Schwaetzer, the housing minister, proposed a generous range of tax incentives for people buying or building homes, plus a 25 per cent increase in the central funds available for public housing. How far the plans get depends almost entirely on the attitude of Mr Theo Waigel, the grim finance minister with budget to control and the heels. And what effect they have, should they be approved, depends on the German construction industry's ability to cope with the monumental demand piling up on its doorstep.



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COLOGNE



FOR MORE than a year, west German industry has been benefiting from the unique and powerful stimulus of reunification.

As demand has sagged in western markets like the US, the UK, and Scandinavia, east Germans have become consumers. After decades in which their needs had been virtually ignored, they celebrated their new-found political and economic liberation by spending their new D-Marks on western goods which had barely been available before.

For some west German companies, the surge of demand was almost too much to handle. Car producers, for example, have been hard pressed to turn out enough models to satisfy the desires of people for whom driving and travel became exciting new pastimes almost overnight. Thus importers have also seen sales rise, a trend visible in other consumer industries.

The big west German retail chains have been investing

heavily in the east, replacing the old colourless state stores with bright new premises. Makers of electronic, pharmaceutical, cosmetics, and other consumer products have also met vigorous demand. For years, the food and drink industry had to be content with growth rates of a mere 1 or 2 per cent; last year, it raised output by more than 12 per cent. Builders have been caught up in the activity, too, as a start has been made on the awesome task of rebuilding east Germany.

Some industries, though, have felt little benefit. The mechanical engineering sector has gone through an uncomfortable patch as export markets have declined. Not until the capital investment side of the east German economy really gets going will machinery companies feel the impetus, though some sectors such as makers of building and packaging equipment have seen their order books swell in the wake of unity.

But although the uniting of the two Germanys has brought joy and freedom, it has also led to pain and dismay. With the introduction of the strong D-Mark and the later collapse of Soviet business as Comecon dissolved, east German industry has been put on the rack.

Jobs have disappeared, production has slumped, and orders have dwindled. It is a process that is inevitable if east Germany is to be modernised and refurbished, but the economic, social, and psychological disruptions are immense.

So is the cost to the German exchequer. The experience of higher taxes and rising prices has tempered the enthusiasm of some west Germans for unification, as the realisation has

Higher taxes and rising prices have tempered some enthusiasm for unification

dawned that an event of such magnitude has to be paid for.

By the end of the century, east Germany will undoubtedly have one of the most modern infrastructures and some of the best industrial plants in the world. But though investments are flowing through and the signs point to an upturn in the flattened economy - though not in employment, which will remain excessive as past over-manning is unwound - the present state of industry in the five new states is dire.

In many east German industrial firms, the situation

is still critical, comments the IFO economic research institute in Munich. Companies which formerly specialised in selling to eastern Europe and the Soviet Union are winning hardly any business. Those which have been privatised and modernised are starting to perk up, however. More and more businesses are also being started up by west Germans.

From its regular survey of 700 manufacturers in east Germany, IFO concludes that although conditions are still tough, expectations have improved. Industrial production is bottoming out. "From the presently low level, a revival could start in the second half of the year and continue next year," in the first half, output was roughly a third of last year's level. In 1992, it could rise by up to 10 per cent.

Spending on the east German infrastructure, vital to support an economic revival, will boost companies in the transport, telecommunications, and energy sectors. The massive past neglect of the environment also offers new opportunities to the host of west German specialists in water treatment, surface decontamination, and emissions control. Hamburg-based Verein and Westbank lists 18 west German

quoted companies which should benefit from the colossal investment on environmental protection.

Thus for many years to come, economic reconstruction in the east will give a huge lift to companies in the west. It will be a long time before industry in west and east Germany coalesces. Today, the contrast is still marked. While Germany is one of the world's most powerful exporting and manufacturing countries, it is west German companies that have achieved that position.

This year, west Germany's industrial output has slowed down to a growth rate of around 2.5 per cent from the 5 per cent in each of the past two years. In 1992, however, says Westdeutsche Landesbank, production should "climb markedly" in both west and east Germany.

For companies in the west, that means improved profits and secure employment. For those in east Germany, now starting their long trek towards economic viability, it means that the need for sheer survival is giving way to gradual prosperity. However hopeful the signs in the east may be, however, arduous times lie ahead.

Andrew Fisher

Chemical giants are slow to go east, writes Andrew Fisher

The wrong time to gamble

GERMANY'S "big three" chemical companies - BASF, Bayer, and Hoechst - have had a rough time in the past year or so, buffeted by raw material price rises, weak demand, and stiff price competition.

At the same time, they have continued to invest heavily in their main product areas and markets to reinforce their prominent position in the world industry.

So far, however, they have been hesitant about investing in the east; the risks are high, the clean-up task enormous, and the development of demand uncertain. In time, though, east Germany, and possibly the whole of eastern Europe, should prove an important market for German chemical concerns.

Sectors such as pharmaceuticals have already benefitted from the wider German market caused by the introduction of the D-Mark and unity. As the east German economy picks up, slowly and patchily, the market for chemicals, plastics, fibres, paints and other products will increase sharply.

For the west German companies, demand from the east will still only be a small part of its total business, however rapidly the economy in the five new states recovers. It is western Europe, North America, and other industrialised markets which account for the bulk of sales and profits.

Analysts expect 1992 to be a much better year for the industry, the extent of the improvement depending on the US. The economies of western Europe should also show more vigour. And although the west German economy is slowing down, activity will remain at a high level, notably in the construction, motor, and packaging sectors. These are big customers of the chemical companies and will continue to derive an extra impetus from east German demand.

Mr Kiran Bhargava, an analyst with M.M. Warburg Bank of Hamburg, expects margins in the petrochemical industry to rise as a result of the higher

dollar and better demand. He also breaks down the proportion of companies' business in the US to show how each stands to benefit from an upturn there: Hoechst, whose profits plummeted in the second quarter, derives 24 per cent of its operating profits from the US, Bayer 16 per cent, and BASF 8 per cent.

This year, the west German chemical industry expects production to rise by about 2 per cent. Turnover in the first half was nearly 4 per cent higher at DM85bn, with an 8 per cent rise in domestic business contrasting with a 1 per cent drop abroad. Profits in the sector were around 10 per cent lower than in the first half of 1990 on average. Capital spending should rise by 8 per cent to DM13.5bn, with another DM1bn being spent in east Germany.

Putting the east German chemical industry right - and deciding how much is worth keeping - will be a monumental task. Much of it belongs to another age. The plants are mostly outdated, hopelessly uneconomic, and grossly over-manned. After decades in which the environment was a totally neglected and taboo subject, the sites also need an expensive clean-up.

BASF boldly moved in with a DM500m investment to modernise the Schwarzhof synthetic plant in southern Brandenburg, only to find that Soviet and eastern European demand quickly collapsed. The west German company has set its sights on long term prospects, hoping to use the site for expansion, but is disappointed that the turnaround may be some way off.

Bayer is spending DM500m on a new production site in the Bitterfeld-Wolfen region of Saxony-Anhalt. The products will include polymers, industrial chemicals, and consumer products. Its involvement will be part of an industrial zone aimed at helping to regenerate the region.

The very name of grimy Bitterfeld has become synonymous with the worst pollution excesses of the old regime. The



A Bayer technician at work: investment continues despite turbulence in the market

Treuband, east Germany's hard-pressed privatisation agency, reckons it will cost at least DM5bn to keep the sites of Leuna, Buna, Bitterfeld, and Wolfen going up to 1995. Another DM1.2bn will be needed to clean them up.

The Treuband is trying hard to persuade companies, German and foreign, to invest, but with limited success. Tens of thousands of jobs are at stake,

and many will disappear, whatever happens. Much further east, in the Soviet Union, Mr Karl Wagner, a Dresdner Bank analyst, sees opportunities for German chemical concerns, though only over a long period.

Wintershall, BASF's energy subsidiary, is already working with Gazprom, the Soviet natural gas producer, to deliver gas into east Germany. Hoechst plans a joint insulin venture in

the USSR and owns Uhde, the chemical plant builder, which could benefit from modernisation efforts in eastern Europe.

Yet however exciting such potential might be for German chemical concerns, it is some way off. For the moment, they are more concerned with prospects in the west, hoping fervently that US-European economies really do take a turn for the better.

Engineering swallows good news and bad

America holds key to revival

A COLD wind is blowing through the boardrooms of many German engineering companies. With exports down sharply, domestic demand stagnating, and short-time working on the increase, the industry is struggling.

The latest figures are bleak, although the industry is so varied that some sectors are prospering while others have slumped. In the first eight months of this year, new orders in the mechanical engineering industry were down by 8.5 per cent in real terms. Foreign business, which has been sliding since early last year, dropped by more than 18 per cent, with an 0.5 per cent decline on the home market.

At the same time, there is plenty of movement afoot. In east and west Germany. To cope with the competitive challenges of the 1990s, especially from Japan, west German companies are restructuring, making strategic acquisitions, and shedding peripheral activities. It is a process that will clearly intensify, a big example being the attempt of the Krupp

industrial group to forge a merger with Hoescht, the steel and engineering concern.

But as well as gearing up for the struggle in western markets, the west German industry is also moving into east Germany. According to Commerzbank, west German machinery and plant manufacturers have committed some

The D-Mark and the collapse of Soviet business exposed huge inefficiencies

DM7bn to investments in the east, with a total of 600 projects. The engineering industry in east Germany is, like the rest of the economy there, in a sorry state.

The coming of the D-Mark and the collapse of Soviet business exposed huge inefficiencies and wiped out much of the order book. However, the bottom may now have been reached, with businessmen reporting a more encouraging export outlook. Even so, there

is a long way to go; the east German industry still has to switch to electronically from mechanically-controlled machinery and develop products that foreign customers really want.

Until early summer, companies gained considerably from the upsurge in business prompted by the needs of newly united Germany. Rebuilding the economy in the east will be time-consuming and expensive, with high profits for those who can provide the right equipment. Obvious beneficiaries of unification have been makers of building machinery, as the reconstruction of east German factories, homes, roads, and public buildings gradually gets under way. Food, packaging, and printing machinery have also been in strong demand. So, too, are safes and vaults as the big west German institutions have come in to modernise the financial system.

In time, eastern Europe and the Soviet Union will again become important markets for German machinery. Nearly 40

per cent of all western machinery exports to the USSR have come from west Germany. Companies such as Lurgi (the plant building subsidiary of Metallgesellschaft) have played a big role in equipping Soviet industry. Lurgi is consortium manager of the ambitious Tengiz oil and gas treatment plant on the Caspian Sea coast

Engineering executives are hardly starry-eyed about prospects to the east

in the Kazakhstan republic. Schies, a machine tool company also owned by Metallgesellschaft, has done business there for 115 years and is a minority owner in the country's first big shareholding company, Sedin, producing tools near the Black Sea.

German engineering executives are hardly starry-eyed about prospects east of their newly enlarged country, however. Too many companies have suffered from payments

delays and the immense bureaucratic and logistical problems in the Soviet Union. Tengiz, for example, is so remote that a 420-mile pipeline had to be built to pump in drinking water; shipping equipment from western ports took up to eight weeks; and the remote salt desert site suffers bitter winters, burning summers, and merciless sandstorms.

As the world's biggest machinery exporter, Germany is bound to play a major role in helping to put the Soviet economy on its feet. But it is far more dependent on events in the US, western Europe, and Asia. If the hoped for US economic recovery really does get under way, European economies will benefit as well. Thus 1992, reckons Commerzbank, could see a pick-up in Germany's engineering exports. For such export-dependent branches of the industry as textile, clothing, plastics, and rubber processing machinery, that will be good news indeed.

Andrew Fisher

GERMANY 13

Andrew Fisher on the motor market's expansion

Opels replace rusting Trabis

WHEN the Berlin Wall came down amid scenes of jubilation in November, 1989, one of the most endearing sights was the horde of little East German Trabis pouring across the border as their drivers savoured the new taste of freedom.

Two years on, the Trabant car - once, with the larger Wartburg, a keenly sought after vehicle in east Germany - is rapidly disappearing from the roads. East Germans have been buying western cars, mostly second-hand, as fast as they can. Along with the flood of visitors from the west, this has led to intense congestion on many stretches of east German roads and more accidents.

The east German rush to buy western cars gave a timely boost to west Germany's motor industry at a time when markets in the rest of the world were slowing down. Companies such as Volkswagen and Opel (part of General Motors of the US) have been hard pushed to meet the demand; both are now investing in new assembly plants in east Germany.

The truck industry, too, has seen the benefits of reunification. Even though the east German economy is now going through the painful initial stages of wholesale reconstruction, intense demand for western consumer goods and the development of a modern retail network has meant a big rise in freight transport. Increasing construction work has added to the activity.

East German roads are now clogged with lorries from the west and truckmakers like MAN have been reaping the benefits in increased sales. Mercedes-Benz, the vehicle subsidiary of the Daimler-Benz group, is also setting up a new truck plant near Berlin. Like VW and Opel, with their Golf and Vectra cars, Mercedes is already assembling its trucks

on a small scale in the revamped facilities which previously turned out east German vehicles.

Since the demise of IFA, the old East German vehicle concern, and the demanding standards set by the introduction of the free market, the Trabis, Wartburgs, and IFA trucks were no longer saleable. As their production ended, thousands of jobs disappeared. The new plants will create new, more secure jobs. But in the meantime, the displaced east German motor industry workers are either unemployed or on short-time.

Many will be absorbed by the supply sector, since both

The vehicle plants in the new eastern states will be the most modern in Germany

VW and Opel intend to work with a low level of vertical integration. Their new plants will make much use of flexible, efficient "lean" manufacturing methods in which a high proportion of parts is bought in from outside.

In a few years, therefore, the vehicle plants in the new eastern states will be the most modern in Germany, with VW in Saxony, Opel in Thuringia, and Mercedes in Brandenburg. Altogether, some DM10bn will be invested in east German automobile production by the mid-1990s.

As the east German economy is rebuilt and purchasing power and living standards increase, car ownership will approach that in the west; at present, there is nearly one car for every two people in west Germany compared with one for four in east Germany.

The upsurge in demand

caused by east German buying, which boosted new car sales as west Germans sold their old models for high second-hand prices, is now tailing off, however. The petrol and income tax rises introduced to help pay for the cost of unity is also dampening the will to buy.

Export demand also remains weak, with the US proving a particularly dismal market. In the first eight months of 1991, car exports slumped by 30 per cent to 136m units. Production has been holding up this year, with 2 per cent more cars manufactured in January-August at 3.1m. As domestic demand weakens, that from abroad seems to be picking up, though hesitantly.

It remains to be seen how these two trends will balance out, though it is obvious that the German industry is in for harder times. In the longer term, too, there is cause for concern. Japanese competition will not be in post-1992 Europe, especially from the "transplants" in the US and Europe. BHP-Bosch says the South Korean threat must also be watched. "What is beyond dispute is that, in the 1990s, competition in western Europe - the most important region - with a share of world car sales exceeding 37 per cent - will noticeably sharpen."

For German car companies, therefore, the rest of the century will bring headaches as well as opportunities. Hence their efforts to curb costs, invest in the most modern equipment, and develop new production methods. The Japanese are already competing in the quality car market, eroding Germany's strong position, notably in the US. BHP thus concluded ominously: "The excellent image of the German manufacturers alone will not provide sufficient protection in the long run in Europe."

Andrew Fisher takes a look at corporate investment in east Germany

Volkswagen is blooming in Saxony

THERE is a jolting sense of two very different worlds coming together when travelling to the site of Volkswagen's planned DMSB plant in Saxony, the largest new corporate investment in eastern Germany.

It is not the plant itself. There, 280 shiny Golf cars roll daily off the production line as if east German workers had been building them all their lives.

Next door, a vast factory hall has already been erected as part of the new assembly complex which will start up in 1994. The rest is still mostly a building site.

The incongruity comes on arrival at the Altenburg air-

field which VW now uses for regular flights to east Germany from the north, where it is based in Wolfsburg.

After flying low enough over Leipzig to see the memorial to those who died fighting Napoleon and a nearby landscape mutilated by lignite mining, the small Czech aircraft lands at a Soviet military base, surrounded by silver birch trees.

On the first such trip, VW officials and journalists were met by four senior Soviet officers. Speeches were made and cameras clicked.

Around the big airfield, MiG fighters stood harmlessly outside their camouflaged, grass-covered hangars and military transport aircraft waited for

loading. Young Soviet pilots and recruits gazed expressionlessly at the VW party.

VW had to argue long and persuasively before the Soviets would permit commercial aircraft to land at Altenburg, nearly an hour's drive from the car plant in the town of Mosel.

Its success is a telling example of how things have changed, both in east Germany, where western industry is moving in to transform a dilapidated economy, and in the Soviet Union, which previously held eastern Europe in submission.

Under Mr Carl Hahn, VW's chief executive, the group was quick to move into east Germany after the border was

opened. Since Mr Hahn was born in east Germany - in Chemnitz, which the former Communist regime called Karl-Marx-Stadt - he has brought a strong emotional commitment to VW's involvement there.

But VW is not investing out of altruism. It wants to secure a strong position in a growing market and to be ready for expanding sales further to the east.

Thus it is also acquiring Czechoslovakia's Skoda car company.

In east Germany, it is taking advantage of generous investment incentives and will also bear only a small part of the initial losses; the rest will be met by the Treuhand, the pri-

vatization agency. From the mid-1990s, VW expects to produce 250,000 Golfs a year at Mosel.

Jobs, now around 1,000, will total 6,000. Altogether, VW says its presence will provide 15,000 jobs (including its dealer and service network), with 20,000 more in the supplier industry.

The plant will be one of VW's most modern.

The surrounding area will also be attractively landscaped, with masses of trees and a topography designed to dampen the noise.

That certainly is something which East Germany's planners were never known to have bothered with.

Christopher Parkes on western industry's impact

Lightning campaign

store, and a chemicals distribution depot and an advanced materials factory on the Berlin periphery in Bernau.

The foundations of his grand design - to mirror Veba's west German presence and market shares in the east - are taking shape. But evidence of the cost is everywhere. Capacity at the Schwedt refinery, owned

The concrete stanchions propping up the tangles of refinery piping are crumbling like sand

jointly with RWE, Agip of Italy and France's Total and Elf-Aquitaine, is being bolted down from 11m tonnes a year to 6.5m tonnes. Local boss Gerd Bukowski points to a building on the right. "That's a 2,000-man canteen. There are five

more..." he says. But many of the 8,600 men who used to eat there are already gone, and more will follow.

By July the payroll was down to 5,000. By December it will be 4,200. By the end of 1993 it will be 2,600 and productivity and pay will then match west German levels.

The concrete stanchions propping up the tangles of refinery piping and tubes feeding heat to Schwedt's 20,000 homes, are crumbling like sand. Incongruous rickety brick smokestacks littering the 1,000-hectare site ("they didn't have the technology to build them any other way") will offer a lifetime's demolition work to some local Fred Dihnab. The bill for renovation is expected to reach DM1.55bn, of which almost half will be spent on environmental protection measures.

The Schwedt story is being repeated all over the east. The town's former DDR army repair depot is closed; so is a factory which made children's shoes wholly for export to the Soviet Union. The 20 full- and part-time jobs provided at the nearby Aral station, and the "possibility" that Klingbeil, a Berlin developer, may build a hotel offer no consolation. But there is little sign of hopelessness about the place. "What is amazing," says Hubert Heneka, chairman of Veba Oel, "is that we have such an attentive, motivated workforce."

"When I told them our plans, including the need to cut the workforce, they applauded at the end and cheered. In the west I would have been booed. The people here know that industry must be reconstructed. Insecurity comes from not knowing when or how. It has always been clear

here." Piltz muses on the message: "When you make it clear where the journey is leading, you can easily get people to come along with you." Then he remembers who he is. We must not concern ourselves with the past, he declares. "We are here doing business. It is up to people to readjust and come to terms with the past and the future."

At the petrol station six brands of champagne and Sekt are on sale alongside components end oil

Down the road, local people cramming the petrol station which Piltz has come to open are coming to terms with the six brands of champagne and Sekt on sale alongside the components and oil. Outside there is a line of 30 cars queuing in the old-fashioned way to fill up with petrol, as if nursing old-fashioned fears that as in the past the underground tanks, once empty, might not be refilled for weeks. Veba, however, is busy putting such fears to rest with a DM1bn filling station expansion plan continuing until 1996.

There is more to astound the Veba team as the helicopter hovers down the River Oder. There are indignant noises about the "primitive" farming methods of the Poles on the other side of the water who are polluting the air with smoke from their post-harvest straw-burning.

But Piltz's enthusiasm is fired by his discoveries at the Frankfurt heating plant. "The momentum of German indus-

try was going a little sleepy, but the east has given us new impetus," he says. And he is openly touched by the reception he has been given on his tour. "They have lots of advisers coming in. They are desperate for help and very trusting, but unsure about whom they should trust... It is important for me to come here and meet people and get a feeling for what is going on."

"The Treuhand (east Germany's privatisation agency) is one point of contact for business information, but that is not enough."

He drinks schnapps and beer, mingling with the construction crew who are (amazingly) dutifully sipping alcohol-free Clausthaler, and pocketing handfuls of kiwi fruit from a buffet table which is extravagant even by west German standards. He scans the maps lining the marquees erected for his visit, which show the Veba plant and its pipes threading through the town. Like many local maps on display today, they are covered with highlighted areas showing roads, depots, power stations, hotels and shopping centres all marked " geplant". Does this mean they are actually planned, commissioned, under construction? "No," says a young engineer. "It means they are needed."

Many of east Germany's needs are obvious without maps to illustrate them. And increasingly obvious is an apparent urge in the west to fulfil them by developing the new states to a condition in which they can be absorbed into a seamless new high-tech Germany. Flying at dawn above the broad swaths of forest, lakes and clear open countryside that separate Berlin from the Oder, Hubert Heneka sounds shocked. "It is a very fine landscape. But look! There are no people. No industrialisation. There could be great potential for tourism; but we need the infrastructure. Where are the autobahns, resorts and hotels. Amazing."

Katharine Campbell on the Bundesbank's role in national reconstruction

Resilient use of debt financing

IN a recent monthly report, the Bundesbank prided itself on the claim that the burgeoning public deficits unleashed by reunification had been "financed almost completely without friction".

Over the past two years, the German bond market has indeed demonstrated a high degree of depth and resilience as the public sector deficit rocketed from a mere DM26bn in 1989 to (roughly) DM140bn this year (including the Unity Fund).

As the government's fiscal agent, the Bundesbank can fairly claim some credit for maximising this resilience. While its officials continually belabour the Bonn government about the perils of fiscal imprudence, they are also working with the ministry of finance to assure the mammoth task is proceeding smoothly.

The dimension of the undertaking is reflected in the fact that gross sales of domestic fixed income securities - which also includes bank bonds - amounted to DM420bn in 1990, representing a 70 per cent increase on the previous year. In the first half of 1991, the equivalent figure had already reached DM220bn. With interest charges of around DM90bn this year alone, the government benefits from every basis point in lower yield that an efficient system can deliver.

There is plenty to criticise in major aspects of the overall debt management, including the government's stubbornness in acknowledging the need for higher taxes as well as for uncomfortable subsidy cuts. Also the proliferation of off-budget funds, beginning with the Unity Fund, has played havoc with any pretence of transparency - with the finance minister Mr Theo Waigel bandying around numbers of indebtedness that have become meaningless because of a failure of definition.

But on a technical level, a bond market frequently criticised for its lack of sophistication compared with the US system has performed surprisingly well. Yields on 10 year government paper peaked back at around 9.10 per cent in February 1990, when the market crashed nearly two points as international investors painted horror scenarios of the costs of unification.

Yields bounced back more or less to those levels over the Iraqi invasion of Kuwait (also a month after currency union) and again at the end of 1990, but the trend has been generally downwards this year. The financing exercise has been helped by the trend of falling interest rates in most of the rest of the world.

But there has also been an evolving strategy, with the authorities calling on a wide range of techniques in order to tailor their wares more efficiently to investor appetites. A central part of the strategy has



been to spread the borrowing more evenly across the curve. Previously, the government's debt was very much bunched in two sectors, at five and 10 years. This process has entailed making more use of existing instruments, but also testing new ones. Last year's railway, postal authorities and then the Bund itself all dipped a toe into the floating rate note market with paper that was snapped up because of the dearth of D-Mark denominated money market instruments.

This May, in an important enhancement to the medium-term maturities, the Bundesbank instituted a regular two-monthly tender of Bundes-schatzanweisungen, bills with a maturity of two to seven years, (though to date all have

The central government also returned to the Schuldschein market

been tendered in the four year area). These Bund instruments have proved surprisingly popular with foreign investors; the Bundesbank notes that two thirds of the May and July tenders entered international portfolios.

While some commentators have suggested the Bunds may be overloading the medium-term maturities, a report by UBS Phillips & Drew points out that this year there have been high levels of redemptions in the five-year Bundesobligationen (Bobs) leading to a sharp fall in their net issuance.

Spreading activity along the curve has meant that there have been fewer, but much larger, issues of 10-year Bunds. The central government also returned to the Schuldschein market. These tradeable loans which are placed privately and hence with less disruption to the capital markets have proved appropriate vehicles for the Unity Fund as well as for some Treuhandanstalt borrowing.

Desperate to avoid being forced to issue a coupon as high as 9 per cent, the ministry of finance was even persuaded by advisers from an American

bank during the course of the summer of 1990 to include a series of embedded options in some of its Schuldschein issues; granting these cheaply as a sweetener to banks, which could then strip out the options and make a hefty turn.

The Bund's balancing trick finally failed at the end of last year, at the close of a very busy issuance period in the final quarter, with the first 9 per cent coupon.

Larger 10-year issues - with old issues reopened on several occasions - have helped to create the extra liquidity crucial to institutional investors.

The advent of government bond futures contracts has also greatly improved the quality of the cash market, starting with the London Bund future three years ago. Now the German DTB has its own rival product.

This month the DTB added a medium-term Bund future, which has made a promising start and will also open the way for more sophisticated trades.

The Bundesbank has also adopted a higher profile in its market-smoothing operations. The central bank has taken larger than usual stings of the 10-year issues for instance, which it has off-loaded into the market via stock exchange sales on days when yields are falling.

One of the most significant changes for international investors, however, is the move to reform the issuance structure for 10-year paper. In a process criticised as far too gradualist, the authorities are chipping away at the old consortium dominated by the powerful German banks and edging towards a full US-style auction system.

In mid 1990, the 1% per cent commission for consortium banks was reduced to 3/4 per cent - lowering the government's borrowing costs significantly - and a part auction system was introduced, in which the banks bid competitively for a part of the issue. Here no commission is paid, and the foreign banks, for the past allocated only around 20 per cent of the lucrative consortium business, can bid alongside domestic institutions according to their placing power.

This month those whose historic quotas no longer fitted their selling capacities were rewarded with the first consortium quota reallocation. While the calculation, the exact basis of which remains secret, was based partly on performance in past auctions, a weighting of around half was also given to sales of other fixed income securities including tax issues, which would clearly favour the domestic institutions. But foreigners have been given considerable further incentive to bid aggressively and the domestic banks, accustomed to easy commissions, sent a warning with the promise of regular

future reviews.

While the auctions themselves have mostly worked well, there have been calls for greater transparency, for instance an announcement of the amount to be tendered, as well as criticism that the authorities have sometimes entered into a hapless tug of war with the market.

A recent hiccup in the otherwise generally smooth funding programme occurred as the result of an outside factor - notably a constitutional court

ruling at the end of June that the current method of voluntary declaration of investment earnings is inequitable.

While Bonn, which was given a deadline of January 1993 to comply with the court ruling, has pledged not to unleash another wave of capital flight similar to that provoked by the last disastrous withholding tax hastily abolished in mid 1989, it is faced with the well-nigh impossible task of satisfying the court and domestic investors.



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GERMANY 14



Berlin's Reichstag building flies the flag: a discredited past and an uncertain future

Leslie Colitt on the revival of Germany's historic capital

Berliners count the cost

FOR most of this year politicians in Bonn intensely debated whether parliament and the government would be ready to move to Berlin in seven, nine or even 12 years.

The unwillingness of Bonn bureaucrats to settle as well as German perfectionism were among the explanations offered for the unreal debate. Parliamentarians argued that the Reichstag in Berlin, restored in the 1960s, would need to undergo a costly modernisation before they could agree to move in.

Others insisted the Reichstag was so tainted by its history that a wholly new parliament had to be built to bouse the Bundestag.

But the new German capital, even lacking the attributes of political power, has become a magnet for speculators and fortune seekers. Property prices have soared to among the highest in Germany and reward notices of up to DM10,000 to the person finding an available flat for rent are common in residential streets.

In east Berlin, fivefold rental increases this month and more to come will make the inner city too expensive for many long-time residents. Following

a pattern familiar in the West, the economically weak will be forced out and the way opened for new luxury housing and office blocks.

Nearly 300,000 east Berliners who live in drafty, prefabricated concrete apartment blocks on the periphery of the city also face an uncertain future. Rents which formerly made up a tenth of their income may now consume up

Planning laws will protect the city's remarkably unspoiled countryside

to half.

Most alarming, though, is the deterioration of the social fabric in these housing estates. Middle-class residents are losing their self-respect along with their jobs. The potential for future crime is great as is the danger of rightwing political radicalisation.

Mr Volker Hassemer is the thought-provoking head of the Department of Development and Environment in an otherwise insipid Christian Democratic Berlin coalition government with the Social

Democrats. His City Forum has become a platform for a democratic, albeit elitist discussion of city planning.

He advocates concentrating new construction on available sites within the city in order to avoid urban sprawl. The remarkably unspoiled countryside just outside the city limits is to be retained by enforcing strict German planning laws. City planners envision that Greater Berlin will develop where it left off before the war, along the S-Bahn urban railway network which forms a ring around the city. The S-Bahn is to be modernised and expanded so that residents of the new communities will commute by rail instead of car into the city.

Berliners were spoiled by the relative ease with which they could travel by car into the city centre and find parking space. But the enormous increase in traffic from east Germany and east Berlin is putting paid to this luxury. At present 60 per cent of transport is by car and 40 per cent by underground, S-Bahn, bus and tram.

The city aims to boost public transport to 80 per cent in the next decade by penalising driv-

ing access to the city centre by private car.

Since early last year Berlin planners have agonised over the rebuilding of Potsdamer Platz, one of the busiest squares in Europe before the war. Reduced to a barren, wind-swept field bisected by the Wall, Potsdamer Platz came to symbolise the division of Berlin and Germany. It was one of the prime undeveloped

Unlike other capitals, Berlin will keep many of its communist monuments

urban sites in Europe and is to become a symbol of the reunification of Berlin and Germany.

Early this month the planners selected a model for developing the square and adjacent Leipziger Platz, the gateway to east Berlin. It was hailed as a modest, European-scale solution which rejected skyscrapers and restricted developers to 35 meter high buildings. However, Daimler-Benz, which plans to build an office building on Potsdamer Platz, sharply criticised the limitation on height which it said

would produce monolithic facades.

Other critics feared that the area will be deprived of urbanity as all but service businesses, expensive restaurants and exclusive boutiques will be excluded by exorbitant rents. The way is now open for the companies which have invested in the choice Potsdamer and Leipziger Platz real estate - Daimler-Benz, Sony, Asea Brown Boveri and Herdle - to offer inspired architectural designs for their buildings.

It is a challenge few German companies have managed to meet until now. Not far from Potsdamer Platz is a huge statue of Lenin erected by the Communist authorities in the early 1970s on Lenin Platz and surrounded by ugly high-rise apartment blocks. The statue is a source of intense irritation to some Berliners who want it removed and the square renamed.

But residents on the square, many of them supporters of the Democratic Socialist Party (DSP), the successor to the Communist Party, insist the statue must remain. Remarkably, the authorities appear to agree. Statues and other Communist relics of the postwar era are to be preserved unless they offend the public. The latter was not the case with Lenin, city officials decided.

Streets named after other Communist bigwigs, however, are to be changed but unlike Budapest, Prague and Warsaw there has been no rush to do so. The memory of wholesale name changes of streets and squares under the Nazis and then the Communists may explain the reluctance to wipe out the recent past. One Communist leftover which the city is anxious to restore is the former Stalin Allee, lined with comfortable, 1930s Moscow-style apartment buildings which were built in the early 1950s.

The spacious flats, however, are not likely to remain affordable much longer for their low income east Berlin occupants. While east and west Berliners mingle in the marketplace and more than 80,000 Easterners work in west Berlin, they remain economically and emotionally divided.

"We are not yet Berliners," we are still east and west Berliners," Mr Hassemer remarked wistfully.

Leslie Colitt tells a tale of whisky galore

Spirit of Prussia

MR CURT FALKENTHAL, a spry 61-year-old east German entrepreneur, had the rare experience of owning a thriving company, seeing it nationalised but continuing to manage it and finally getting back his former company last year.

"I'm just an old Prussian. Sense of duty, you know," he said only half-joking. But monetary union with west Germany last year nearly bankrupted the reprivatised C.W. Falkenthal & Sons, makers of fine liquors in Luckenwalde since 1781.

East Germans decided everything made in the West, including spirits, was automatically better. Sales plummeted to 10 per cent of the previous volume and Mr Falkenthal seriously considered selling out to the competition.

"Business friends cautioned me not to sell to a west German competitor who would simply close us down and use our name," he recalled.

The company was saved at the last moment. In September of last year, east Germans again felt a yearning for the old, familiar east German products, albeit in more attractive packaging.

Although it was too late for many bankrupted companies, C.W. Falkenthal has seen turnover rebound to nine times the level of last autumn. Planned sales of DM24m this year are now expected to be reached. The 20 per cent of production currently sold in west Germany is to be expanded to 70 per cent with the help of contracts such as the recent one with Tengelmann, a leading west German supermarket chain. Tengelmann is taking 25,000 bottles a month of Der Falkenthaler whisky and the best-selling Klosterbruder herb digestive liqueur.

The success of the Tengelmann contract will determine whether or not Falkenthal can retain its present 52 employees, down from 92 last year.

Mr Falkenthal's whisky - clearly labelled Deutsches Erzeugnis (German Product) - retails for about DM16 a bottle and is matured

for three years in wooden casks "according to the EC norm", he stressed.

Under the company's former state director who replaced Mr Falkenthal when he was ousted in 1980, the whisky was kept for 18 months in metal tanks. The ex-director and his deputy departed last year.

Reflecting the grim economic climate in east Germany, the reprivatised liquor company is now one of the few production companies left in Luckenwalde, a town of 27,000 to the south of Berlin. The former state roller bearing factory with 2,000 employees is shut down as is the vast textile mill

Trenhand agency for privatisation - the agency still holds 65 per cent which Mr Falkenthal wants to buy back - which was essential in order to pay the spirits tax a month in advance as required. The Trenhand later withdrew the guarantee as it did with other companies without any explanation.

Mr Falkenthal's age has led him to rely on Mr Memmert, who joined the company last year from the spirits tax division of East German Customs, and Ms Helga Hennig, who is in charge of finance. She also guarantees continuity, having served both under Mr Falkenthal and later as the economic head of the nationalised company.

"I never dreamed we would become private again. But we all knew that things could not continue as they were," she remarked. Mr Falkenthal's son, whose heritage company works under contract for his father, does not appear to be interested in taking over the family concern.

Mr Falkenthal relates his harrowing postwar experiences as an entrepreneur in Soviet-occupied East Germany with remarkable equanimity. The largely intact factory and distillery became part of a trust company in 1945 and produced exclusively for the considerable needs of Soviet forces.

In 1947, the company was handed back to his father by an official in Potsdam who was an old-time German Communist. ("They weren't all bad," Mr Falkenthal recalls). But the company's deposits of Reichsmark 6m in 1945 were gone forever. He was arrested in 1953 on tax charges and released after the signing of June 17, four months after entering prison.

"That was the start of the 'new course' which meant I could buy a copper still for a new distillery," he recalled. But in 1972 the precarious existence of an entrepreneur on socialism ended when C.W. Falkenthal & Sons was nationalised along with 11,000 other private companies.



Falkenthal: sense of duty

and the former hat and metal fittings factories.

"We have close to 70 per cent unemployment here," Mr Falkenthal said shaking his head. He was pessimistic whether many Mittelstand (medium-sized) companies would again take root in east Germany where they once flourished. The Mittelstand was only being supported "on paper" he said.

The company invested DM1m this year in a new bottle filling line and labelling machinery which meant it could get along with only 32 employees according to Mr Manfred Memmert, the managing director. But if sales picked up further then more people could be retained.

The distillery got bank loans of DM3m guaranteed by the

The anti-pollution drive is set to slow down

A darker green

GERMAN unification "is proving a serious problem for the energy sector and hence the environment," the takeover of east Germany by the German constitution. The electricity supply and distribution industries by the big west German utilities has run into legal difficulties. And two German giants, BASF and Ruhrgas, are slugging it out in the gas sector at the expense of east German consumers.

As a result of the former problem the cleaning up of the highly polluting east German power stations may be seriously delayed and the general target of phasing in west Germany's rigorous environmental regulations by 1996 now seems certain to slip.

Germany will continue to deserve its reputation as a front-runner in environmental legislation, see for example its ambitious new plans for recycling all forms of packaging, but unification has temporarily dented the environment as a political theme while at the same time making Germany a great deal more polluted. (Germany, after integrating the east, is now Europe's biggest per capita producer of carbon dioxide at over 12m tonnes a year).

Craving for the environment costs money and, thanks to unification, Germany currently has little to spare. There are already murmurs that Germany's highly ambitious target of reducing carbon dioxide emissions by more than 25 per cent by the year 2005, when the EC as a whole is proposing only to hold emissions at their current level by the year 2000, may not be feasible. Levying the planned carbon tax of DM10 a tonne on households and industry, at a time when other taxes and duties have been rising to help pay for unity, will be politically difficult.

But the most immediate setback to the establishment of an environmentally sound energy sector in east Germany is the decision by more than 140 east German local authorities to complain to the Constitutional Court about the terms of last year's takeover of the electricity supply industry by the main west German utilities. The Trenhand privatisation agency sold, at a price yet to be agreed, to RWE, FreusenerElektra and Bayernwerk, the electricity generation industry and a majority stake in another company formed out of the 15 regional distribution enterprises.

It is the latter deal to which the local authorities are objecting, claiming that it restricts their right to produce their own electricity, as many of them did before the war providing them with a useful extra source of revenue. They

argue that local generation is cheaper and environmentally sounder and is backed by the European Commission and by the German constitution. The Constitutional Court will decide early next year.

In the meantime, the west German utilities have announced an investment strike. They had been hoping to recoup much of the DM40bn to DM60bn investment needed to modernise and clean-up east German electricity production through semi-monopoly prices at local level.

That may now be in jeopardy. "Until the judgment we are suspending all major investment," says Mr Friedhelm Gieske, chairman of RWE. The RWE spokesman, Mr Thomas Klante, adds: "We originally wanted to establish west German environmental standards by 1996 but that is no longer possible."

Even prior to this legal attack on their takeover the deal was not looking an especially favourable one. The costs of modernisation appear to be far higher than originally estimated and demand has slumped by about 40 per cent (which is at least environmentally beneficial) thanks to the economic crash and the phasing out of heating subsidies.

If the local authorities now succeed in winning the right to produce their own electricity the outlook will look even gloomier for the utilities, especially as it will encourage more local authorities to opt out of the semi-monopoly west German system. The utilities may even withdraw from the east German deal altogether.

The original deal did, after a struggle, concede some rights to local authorities. For example, in exchange for handing over the electricity selling franchises in their districts the authorities are allowed a share in locally generated profits up to 49 per cent.

But that was not enough for Frankfurt am der Oder which has gone into alliance with the US company Bonneville Pacific Corporation to produce electricity for its region. Frankfurt has no money so Bonneville will build it a new 76-megawatt power station from which it will sell electricity at nearly half the price planned by the big utilities. Bonneville will pay Frankfurt for the use of the town's old distribution net and after eight years will give the town the option of buying the power station.

This is a very attractive model for the local authorities and if they win their court case many more towns will be knocking at Bonneville's door. The energy sector may yet turn out to be a case of east German improvisation helping to break-down west German rigidities.

The costs of unity and the subsequent need to reduce west Germany's subsidy mountain, sometimes estimated at DM150bn per year, has also renewed pressure on the DM10bn in subsidy for the west German coal industry. Half of that DM10bn comes from a levy on electricity consumers who pay the generators the difference between the price of the 40.9m tonnes of domestic coal they burn and the world market price. The rest of the subsidy is paid direct by central government or the coal producing states.

Mr Jürgen Möllemann, the economics minister, wanted to reduce the total quantity of subsidised coal from 7m to 4.5m tonnes, at least until the year 2005, although he has now offered the miners a compromise of 50m, which they do not seem inclined to accept. But the European commission, which is increasingly worried about German coal subsidies, may give them no choice.

David Goodhart

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BLACK COUNTRY

Monday October 28 1991

■ Development corporation's master plan hits a roadblock Page 2

■ Cradle of the industrial revolution faces problem of reclamation Page 4

SECTION IV



The recession has come at a difficult time for the Black Country, restraining, but not extinguishing

the momentum of regeneration in this old industrial heartland.

Paul Cheeseright monitors the pace of progress in creating favourable conditions for growth in the future

A battery of efforts

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A miscellany of company names, some well-known, some not. They have two things in common. First, they have operations in the Black Country. Second, they are on a lengthening list of companies laying off people. Recession is hurting the four boroughs of Dudley, Sandwell, Walsall and Wolverhampton which wrap around the western and northern sides of Birmingham to make up the Black Country.

This recession has come at a difficult time, restraining, but not extinguishing, the momentum of regeneration in what remains one of the UK's harshest areas. Social conditions, it is true, have changed since one angry writer before the Second World War looked into what he called the "vast smoky hollow" and pronounced it "wilderness", "a smouldering carpet". Certainly it has been an industrial battlefield.

More recently, the Black Country Development Corporation, in restrained prose, noted how the economy "based his-

torically on the making and working of metals, drastically declined in the late 1970s. The run down and demise of local companies left a chain of redundant industrial premises, derelict and polluted wasteland, high unemployment and depressed industrial townships."

Just as they did before the Second World War, these industrial townships merge into each other: clusters of factories, shops and homes, held together by a web of minor roads, divided by rivers, railways and canals. Local loyalties remain fierce. Certain districts are historically associated with certain products - Willenhall for locks, Darlaston for nuts and bolts, Stourbridge for crystal, Walsall for leather goods - but the influence of the motor industry is pervasive.

There are contrasts. As the industrial activity tapers off on the western and north-western sides, the leafy Conservative-voting suburbs appear. But the Black Country is natural Labour Party territory and the representation on all four local councils reflects this. Indeed, the West Midlands Low Pay Unit calculates that in the Black Country there are

207,280 people or 46.2 per cent of the workforce beneath its low paid threshold of £172.13 for a 38-hour week.

All the boroughs can point to the statistics of deprivation. The Sandwell Health Authority has noted that 10.3 per cent of homes in the borough are deemed unfit properties, about twice the national average. The Walsall Training and Enterprise Council observed that 70 per cent of the borough's unemployed live in a designated "inner area programme priority area", where 72 per cent of the ethnic minority population live.

It is against the background of economic and social difficulty that a battery of effort at local and national level to improve the environment and revive the economy has been taking place. The effect has been mixed.

In the early 1980s, Enterprise Zones, offering tax concessions to establishing businesses, were set up in Dudley. The start was slow, but the industrial estates filled up and the vast Merry Hill shopping centre came out of the ground. The effect partially was to

replace steel plant jobs with retail. While this represented a significant shift of employment patterns, at the same time it compounded the difficulties faced by existing and traditional shopping centres such as Dudley and West Bromwich.

Towards the end of the decade, the Black Country Development Corporation came into existence, charged by the UK government with the regeneration of 10 square miles of Sandwell, Walsall and Wolverhampton. Its activities in fostering new housebuilding have gone some way to offsetting the sort of deprivation to which the Sandwell Health Authority drew attention. It has started to heal the industrial sores of polluted land with extensive land reclamation work. It has fought the fragmented land ownership of its designated area to assemble tracts now available for new development. But it has been thwarted on its two projects of highest profile.

The first of these is the Black Country Spine Road, designed to ease communications in a notoriously clogged area, and to open up access to new commercial activity. But escalating cost estimates, more difficult ground conditions

than had been expected and over-specification made the Department of Transport in London take fright. Central government funds will meet £68m of the £93m costs of a road reduced in specification and at roughly half the length originally envisaged.

The second is Sandwell 2000, the name given to the old Patent Shaft steelworks site. Here the vision was a huge new shopping and leisure centre. Speyhawk, the selected development company, stresses devotion to the project but reasonably argues now is not the time to raise finance for it. Many believe that Sandwell 2000 has lost its place in the market to Merry Hill. Certainly, Sandwell Metropolitan Borough Council, the majority landowner of the site, believes that is the case and now wants the land designated for business and industrial use.

While the Black Country Development Corporation has been wrestling with these problems, Wolverhampton Metropolitan Borough Council has succeeded in its bid to wrest urban development funds from the UK government. It is one of 11 authorities whose bids for City Challenge funds were accepted. This will create the



Contrasting landscapes: The vision of a huge shopping and leisure centre on the site of Sandwell 2000 (left) has faded temporarily as a result of the recession and the successful Merry Hill shopping complex (right)

Black Country's third focus of centrally funded regeneration. It will concentrate on the inner city wards of St Peter's and Low Hill, which, the council said, "have the highest levels of unemployment and social deprivation in the borough".

Change in the physical environment, actual and potential, set off by the public authorities has been matched to some degree by the larger local companies as they seek new uses for land left redundant by the departure of heavy industry. The steel works, for which the Black Country once was famous, have disappeared. In this context two of the larger developments are taking place

on Tarmac land, where the Bilston steelworks once stood, and on land next to the M6, owned by Triplex Lloyd, the industrial group, where a retail warehouse complex has brought about change of the same character as Merry Hill in Dudley.

But the speed of change depends on the national and local economies. Here the omens are not immediately promising. Few in the Black Country share the UK government's optimism about general recovery. Rather, further retrenchment seems on the cards.

This is evident in the unemployment rate: it rises remorse-

IN THIS SURVEY

■ Communications: Bad connections for travellers
■ Property: Twin development sets the pace
■ Planning: Rough ride for designers of a Spine Road
■ Industry: Manufacturing still abounds.....Page 2

■ Labour and training: Rising unemployment accentuates occupational changes

■ Land reclamation: Problems are not just what has gone into the land, but what has gone on underneath it.....Page 3

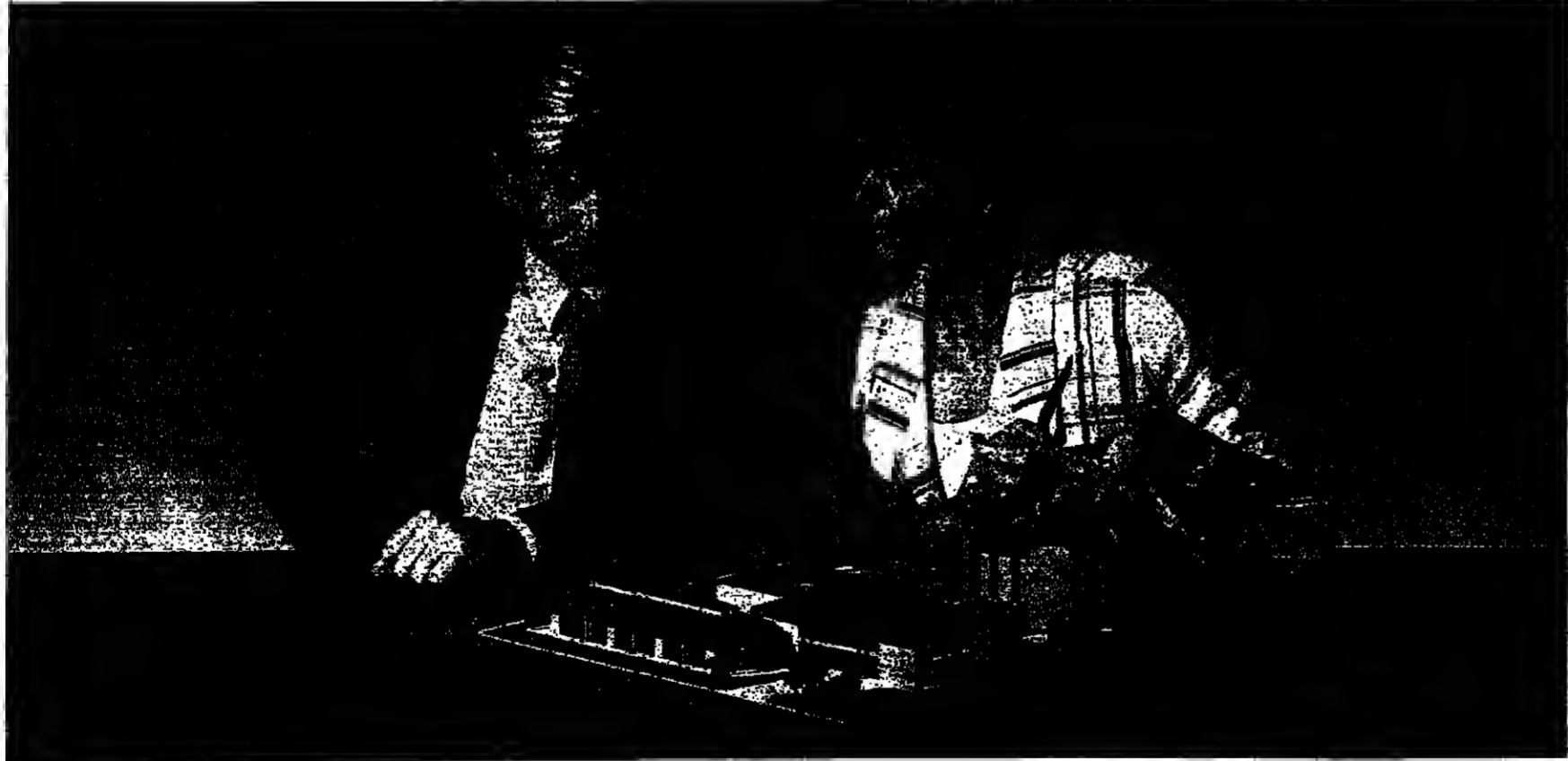
■ Industrial profiles: Crystal - glass roots go back 300 years; Motor components - under pressure to change

■ Wolverhampton: A £40m prize in the City Challenge programme.....Page 4

lessly. By the end of the summer it was 9.48 per cent in Dudley, 11.2 per cent in Walsall, 12.8 per cent in Sandwell and 13.8 per cent in Wolverhampton. The latest Walsall Chamber of Commerce business survey, a useful barometer for the whole of the Black Country, suggested, as the Chamber put it, "that the recession should bottom out in the fourth quarter". The downward trend continued in the third quarter but at a slower rate than previously, and, if there are glimmers of hope, they are in the chamber's analysis that "for the first time in 12 months there are more firms expecting an increase, rather than a decrease in orders".

But, all will not be well with the Black Country simply because company order books fill up again. The relative insularity of the business community, its lack of knowledge of the implications of the strengthening of the European Community internal market, the problems of diversification of markets and products away from the British motor assemblers - all of these combine to make a business agenda of greater importance than the short-term twists of the economic cycle.

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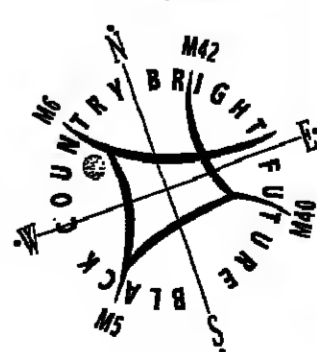
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BLACK COUNTRY 2

TRANSPORT AND COMMUNICATIONS

Bad connections for travellers

THE Black Country business community constantly reiterates its demands for new and improved communications within the area. When the four chambers of commerce lobbied this year's party political conferences, transport links were a preoccupation.

A survey carried out for the Confederation of British Industry by Handley-Walker, consultants, showed last year that a third of businesses thought road connections were poor and that a quarter thought rail connections were poor. Only 10 per cent of the respondents considered the departments of environment and transport were doing a good job.

Certainly, travel is notoriously difficult in the Black Country, easy to find but difficult to penetrate. There are hosts of narrow roads, crisscrossed by rivers and canals. The industrial estates and residential areas are cheek by jowl in a tangle which would appal any contemporary urban planner. And, of course, the amount of traffic is increasing all the time.

Commissioned by the four boroughs of the area, the Black Country Development Corporation and Central, the operating arm of the West Midlands Passenger Transport Executive, the Black Country Integrated Transportation study warned that over the next 20 years it would be necessary to spend £2bn "if severe environmental and economic degradation is to be avoided".

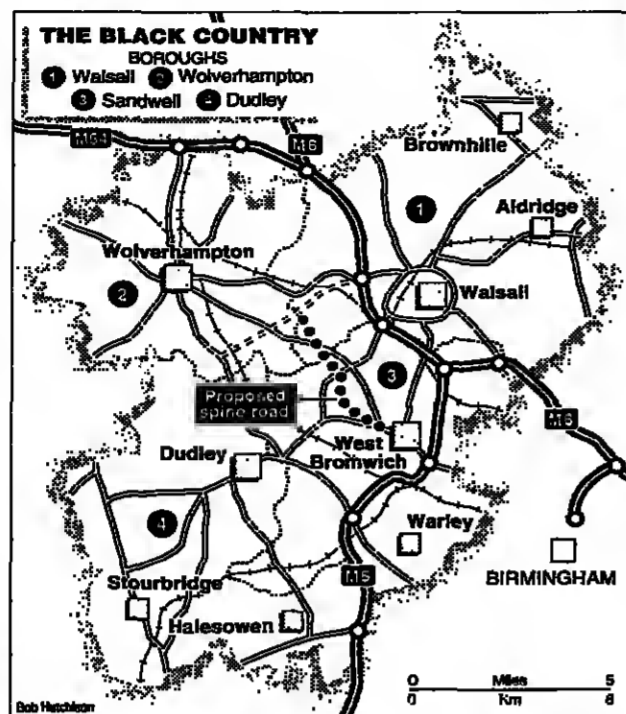
This study, prepared by Transportation Planning Associates and Ecotec Research and Consulting, advocated, inter alia, a shift from private to public transport investment and the grant of some priority to public transport over private vehicles.

But, even apart from the fact that the £2bn is far in excess of any existing planned expenditure for the Black Country, its emphasis on public transport seemed to put it at odds with central government thinking.

There is among Black Country public bodies scant sympathy with the notion, enthusiastically grasped by the UK government, of toll roads around the periphery. Local authorities and business organisations have been consistently opposed to making traffic pay to use these western and northern orbital routes.

The first of these, for which no developer has yet been selected, would run down the west side of the Black Country. The second, running between junctions four and 11 of the M6, skirting the north-east of the Black Country will be built by Trafalgar House and Talstat, the Italian group which is Europe's biggest toll road operator, at a cost, including financing charges, of up to £500m.

Dudley Borough Council fears that, on the western orbital, tolls will hurt local industry and that they will be a deterrent to companies thinking of relocating to the area. The Walsall Chamber of Commerce is worried that there will not be enough junctions on the northern orbital. It argues that it is not enough simply to have a by-pass if the new route is to benefit the Black Country economy then there has to be access to it. Further, as the new route could benefit newer business areas, such as Fradley airport, Lichfield, there is the danger of



THE BLACK COUNTRY BOROUGHES
Walsall Wolverhampton
Sandwell Dudley

potential new business being siphoned off, unless there are more junctions.

But it is the internal communications of the Black Country which most worry local business and which attracted the most attention in the Integrated Transportation study. The key to road planning in the area is two routes - the Black Country Spine Road which would run north-west and then northwards from junction one of the M5 to Sandwell 2000, the old Patent Shaft steelworks site, before threading through a heavily industrialised district to meet the Black Country Route running westwards from junction 10 of the M6. The effect of the new

The industrial estates and residential areas are cheek by jowl in a tangle which would appal urban planners

routes would be to open up the clogged communications of the area.

But the Black Country Route so far is only about a quarter complete and the Spine Road has yet to be built. Specification for the Spine Road has been lowered to dual carriage-way from motorway standard. The central government will meet £68m of the £93m cost of building from the M5 to Sandwell 2000. The Black Country Development Corporation will have to find the balance.

The Black Country local authorities and Development Corporation are urging the government to fund the road to its full length, so far without success.

Business pressure for the whole road was evident when the chambers of commerce were at the party political conferences. The government's response is that the important thing now is to get on with the modified road plan as soon as possible. Enough is enough, it seems to be saying.

Traffic congestion, however, could be eased by the construction of the Midland Metro rapid transit system. "Accessibility by public transport will be substantially improved by the implementation of Midland

Metro," the Integrated Transportation study concluded. The first line, which has received parliamentary approval, would run from Birmingham to Wolverhampton, cutting right through the Black Country.

This month the government agreed to provide £1.5m for further development studies without making any commitment to construction funding, so there is not likely to be much relief from the Metro until the mid-1990s at the earliest. Later lines, the future of which at this stage is cloudier than the first line, would connect Wolverhampton with Walsall, and Walsall with Dudley with an extension to Stourbridge. But the whole process is painfully slow.

Meanwhile, there remains the question of the railways. There has been sustained pressure on British Rail for an improvement in the quality of local passenger services, but this is not confined to the Black Country. West Midlands commuters in general feel themselves hard done by. British Rail recently has been seeking to allay fears that its InterCity service from London to Birmingham and Wolverhampton will end at Birmingham. This follows its decision to cut the Wolverhampton-Shrewsbury InterCity link.

But the main controversy relates to rail freight. Black Country Development Corporation plans to consolidate three steel terminals - at Great Bridge, Walsley and Wednesfield, into one large operation at the Bescon marshalling yards in Walsall and build the requisite link road. This has aroused local opposition.

One of the thoughts behind this move is that the Bescon development would pave the way for the use of the marshalling yards as the West Midlands freight terminal for Channel Tunnel services. But British Rail has yet to make up its mind on the suitability of Bescon as opposed to a competing site to the east of Birmingham.

Paul Cheeseright



Identical twins Roy and Don Richardson... an unusual feature of the Merry Hill development is a 1.5-mile monorail

Stewart Dalby investigates property and enterprise zones

Merry Hill is a twin development

INDUSTRIAL and commercial property developments and, to a lesser extent, housing in the Black Country, are dominated by two facts of life. First, there are enterprise zones in Dudley, one of the four boroughs which make up the area; second, there is an urban development corporation in parts of the other three boroughs, Sandwell, Walsall and Wolverhampton.

While offices, shops and factories have been built in the Black Country area, notably in Wolverhampton where the borough council has been responsible for bringing on stream a number of sites such as the St David's business park and the Chubb centre outside the UDC area, most projects of any size have been undertaken either in Dudley, in the enterprise zones or within the urban development area.

Perhaps the best known development in Dudley is the Merry Hill shopping complex. This is a 1.8m sq ft shopping and leisure complex built by the 61-year-old Richardson identical twins, Roy and Don.

Don says: "We were born within walking distance of Merry Hill. We really believe in the regeneration of the Black Country."

The Richardson twins, who left school at 14, sold their truck distribution business in the 1960s to concentrate on property development.

One of their latest ventures is the conversion of the £70m John Lewis department store - now standing empty in the centre of Birmingham - into offices and shops.

Don Richardson proudly says: "We used to get taken to John Lewis every Christmas as kids. A real treat, it was. Now we own it."

The Merry Hill complex was conceived in the early 1980s when the Richardsons bought 300 acres of the 500 acres of the enterprise zone created in 1961. A second, smaller enterprise zone of nearly 200 acres was created in Dudley in 1984.

The advantages of enterprise zones include exemption from local authority rates on industrial and commercial property (but not on water rates or other charges); 100 per cent capital allowances for corporation and income tax on all industrial and commercial buildings of any size for any purpose; greatly simplified planning control.

Asked whether this meant that buildings could be put up on enterprise zones for next to nothing because of the tax breaks, Don Richardson chuckles and says: "I wouldn't say that. Nothing's built for nothing these days. What it does mean is you can put up a building without having any debt on it. If you have no debt you haven't got huge interest payments."

The favoured method of developing on enterprise zones is to sell the building, often before completion, to an enterprise trust. This works something like a business expansion scheme. A trust is set up to take advantage of tax allowances on enterprise zones and many individual shareholders take part

in the trust. They get their return from pre-lettings or, if there are no tenants ready available, rent guarantees can be built in as part of the cost of putting up the building.

For prospective tenants there is the attraction of no business rates for the life of the enterprise zone. This advantage runs out for the first enterprise zone this year, but lasts until 1994 for the other.

The Richardsons have funded a number of their developments by using enterprise trusts. But the original Merry Hill complex they were able to build themselves, partly because they bought the land at the bottom of the market.

They quickly sold the original 128-acre development to the Mountleigh group. This area consisted of 1.4m sq ft of large stores and shops, a large floor area, a number of retail warehouses, two restaurants and a 10-screen cinema.

An unusual feature of the centre is a 1.5-mile monorail.

Mountleigh is trying to sell on the complex. Meanwhile, the Richardsons are continuing with their Waterfront project, a high-quality development of more than 300,000 sq ft of offices and B1 light industrial premises close to the shopping centre.

Don Richardson says he prefers developing on enterprise zones rather than on land owned by the urban development corporation. "UDCs are supposed to have streamlined planning procedures, but it usually means one

more level of bureaucracy to deal with," he says.

In spite of this, he and his brother are discussing projects with the Black Country Urban Development Corporation.

Having a UDC in place does have its advantages, not least the ability to give grants to developers to reclaim and rehabilitate land. Or it can spend its own funds on reclamation and decontamination.

The advantages of putting up industrial office accommodation in the Black Country is the lower costs. Land is much cheaper. It can start at £100,000 an acre which means developers do not need such a large return. Rents for warehousing can be as low as £3 a square foot, half that in Birmingham.

The highest rent found so far for a B1 property is £12 per square foot. Two years ago premises in Birmingham were fetching £20 a sq ft.

In spite of the cheapness, however, it should be stressed that the Black Country is not Birmingham. Birmingham is developing as a service centre and a business tourism town. The demand for office space is likely to grow rapidly once the recession ends.

The Black Country, partly because Birmingham is so close, seems most unlikely to attract service industries in great numbers. It is more likely to see an expansion of its traditional metal-based industries and motor components companies. For these there is plenty of land available at reasonable cost.

BLACK COUNTRY DEVELOPMENT CORPORATION

Master plan strikes a roadblock

THE Black Country Development Corporation, like its counterpart for Cardiff Bay, has created the feeling that realisation of its development plans are contingent upon the building of a large infrastructural project.

In Cardiff, the stumbling block was a barrage across the Bay to create a freshwater lake. In the Black Country, a spine road through the corporation's area linking the M5 and M6 motorways, is deemed vital for the realisation of large projects the corporation wishes to promote. Piecemeal developments have been possible in Cardiff and in the Black Country, but the integrated master plans that dreams are made of have been delayed.

The BCD's area covers 10 square miles (25.9 sq km), or about 6,500 acres, in three of the four boroughs in the Black Country - Wolverhampton, Sandwell and Walsall. It has no land in the fourth borough, Dudley.

Most of its operations are in Sandwell. The BCD has estimated 1,500 acres are derelict but reclaimable. So far the BCD has acquired about 800 acres and hopes to acquire another 300 to 400 acres.

Assembling this land has been costly. The legacy of 200 years of industry is that much of land has been degraded or contaminated or has become unsuitable for development because of mining and so far 470 acres has been reclaimed.

Although parts of the area are considered derelict, 35,000 people live and work in the area and thousands more commute to it. Compulsory purchase orders for existing industrial properties and homes have therefore been necessary to acquire much of the land.

Mr Ian Page, the marketing director of the BCD, says: "All this takes time and money. Few private developers are interested unless the land is properly assembled and certain costs like access and reclamation are taken out. That is what the corporation's job is."

The UDCs have considerable powers to enable them to do this job, powers that usually belong to the district councils. Apart from the power of compulsory purchase they control planning within their areas. They also have vesting rights that enable them to acquire public land at current use cost.

The BCD has a notional budget over its 10-year life of £250m for land assembly and reclamation costs.

The development corporation has also undertaken several development projects. Oldbury town centre has been revived; a canal-side village has been built at Tividale; numerous industrial developments in the Oldbury and Smethwick areas are progressing; and a new hotel and an office development on the edge of Wolverhampton town centre are under construction.

The BCD says that on March 31, 1991, industrial floor-space built or under construction totalled 4m sq ft and 1,100 homes had been built or were being built. The corporation had spent £10m by March. These schemes generated about 7,500 jobs and an investment of £250m from the private sector.

Sir William Francis, chairman, stated the corporation's findings in the annual report for the year to March 1991: "The Spine Road running between Junction 1 of the M5 and Junction 10 of the M6 is a fundamental requirement of the regeneration programme. It is noticeable that new developments have been taken place on the periphery of the UDC where there is reasonable access to the motorways and higher quality roads; the heart of the area which contains most of the derelict but reusable land is largely inaccessible."

While the development corporations have a broad remit they do not have the funds or the authority to build barrages or main highways. Some critics maintain that this inability to build important roads and other infrastructural projects is a serious weakness in the concept of UDCs.

Mr Woolbridge also feels that this is the likelihood of the Black Country attracting computer companies. "The Black Country is not a good place for companies making video recorders to invest. It is not like Scotland or the Thames Valley. There are few companies like that here already and there is no electronics culture."

He is sanguine, however, about the dependence on manufacturing industry.

"People make two mistakes when talking about manufacturing industry in the Black Country. First they confuse the heavy basic industries like iron and steel making with the metal processing industries. And second, they believe that because fewer people work in manufacturing the industries are disappearing. They ignore productivity gains. The basic industries have contracted but our other traditional industries - motor components, metal processing, galvanising - are going strong."

"We here at B.E.Wedge are producing 19,000 tons of galvanised products a year, which is more than we have ever produced. We are doing it on fewer staff than three years ago. In motor components all kinds of new technology like computer-aided design is improving productivity. I think the area has a good future based on manufacturing."

At a time when just about every economic development unit in the country has been charged to attract new so-called sunrise companies in the services and high-technology sectors, does the Black Country not wish to diversify its economy?

Mr Norman Perry, the chief executive of Wolverhampton Borough Council, basically agrees with Mr Woolbridge that the Black Country is unlikely to see great diversification into services and high technology. "We might see some office development by being in Birmingham's slipstream. It is cheaper here for companies which already have manufacturing facilities to set up a head office," he says. "There is little point at a time when Birmingham is trying to develop services in a big way for us to try and attract service companies relocations."

As for high-technology companies, Mr Perry says that there is a concordance between the boroughs and the rest of the West Midlands that the West Midlands Development Agency (Wmda) handles the promotion for new inward investment. Most high-technology companies, particularly Japanese companies, would probably go to Telford where there are other Japanese concerns already in place.

These figures apply to the period of the late 1980s before the recession. Since then there have been layoffs in some companies.

The structure of industry examined by Stewart Dalby

The structure of industry examined by Stewart Dalby

Manufacturing still abounds

"PEOPLE often look at Birmingham and see the way its economy is changing by developing service industries and automatically assume the same thing is happening here in the Black Country. There has been some diversification into services industries in the Black Country, but nothing on the scale of Birmingham. After the recession you will see that the area is predominantly a manufacturing region based on traditional industries, although heavy industries like iron and steel have gone."

This is the view of Mr Jeremy Woolbridge, the chairman of the Confederation of British Industries Black Country Area Group and chairman and managing director of B.E. Wedge, one of the main hot dip galvanising companies in the area.

A glance at some statistics for Sandwell, one of the four boroughs making up the Black Country, tends to reinforce his point. Of 3,228 companies registered with the business unit of the borough's economic development office, 1,056 are involved in metal goods, engineering and vehicle industries. A further 487 companies are involved in other types of manufacturing.

There have been moves into services such as the distribution, hotels and catering sectors. However, in the banking, finance, insurance, business services and leasing sector

there are 319 companies and 220 of these employ fewer than 10 people.

Looked at in a different way - in terms of people employed - the figures for Wolverhampton, another of the Black Country boroughs, again makes the point of a dependence on traditional manufacturing.

Including metal manufacturing, metal goods, mechanical engineering, instruments engineering vehicles and transport equipment, paper products, printing and other manufacturing, 24 per cent of the workforce were employed in manufacturing in the late 1980s before the recession struck. The structure has not changed much in the past two years, according to the borough council officials.

If construction is included then 31 per cent of the workforce is involved in manufacturing. The figure for us to 2.3 per cent of those with jobs are in the electrical and electronics sector.

The principal private sector employers in Wolverhampton are Goodyear Tyre and Rubber Co, with 4,500 on the payroll, Tarmac (2,500), British Telecom, which has its regional administrative headquarters in the town, (1,570), and Lucas Aerospace (1,300).

These figures apply to the period of the late 1980s before the recession. Since then there

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BLACK COUNTRY 3

LABOUR AND TRAINING

Occupational changes

UNEMPLOYMENT has been rising inexorably across the Black Country, accelerating longer-term changes in the labour market and posing an increasingly daunting task for the four training and enterprise councils (TECs) recently established to foster training in line with the needs of business.

By the end of August, the rate of unemployment, which tends to understate the number of people out of work, was 9.49 per cent in Dudley, 11.2 per cent in Walsall, 12.8 per cent in Sandwell and 13.5 per cent in Wolverhampton.

In each borough the percentage of jobless was higher than the national average. In some wards - St Mathew's in Walsall and St Peter's in Wolverhampton, for example - the unemployment rate has been running at more than 20 per cent.

The underlying reason for the high figure has been a quickening in the number of jobs lost from manufacturing and a shake-out in the fledgling service industries of the area.

When the local economy was recovering from the recession of the 1980s, there was no recovery in the number of manufacturing jobs; the rises in employment, rather, came from the services sector.

While this brought the balance between the proportion of manufacturing and services jobs closer to the national balance, it only partially reduced the dependence of the Black Country on manufacturing. Nationally, manufacturing accounts for 23 per cent of jobs. But within 15 minutes' travelling time from Wolverhampton, manufacturing accounts for 44 per cent of jobs. In Sandwell, one third of economic activity is manufacturing. The proportion is roughly the same in Dudley, but rises to 40 per cent in Walsall.

However, Dudley demonstrates the shift of jobs away from manufacturing. In 1973, before the 1980s recession shook the West Midlands manufacturing sector to its core, the proportion of manufacturing jobs in the borough was 45 per cent.

This shift hides a further change in the labour market. The Black Country is not unique in this, but the propor-

tion of women in jobs has risen as the services sector has grown. Although about a third of the Sandwell workforce is female, the proportion rises to 46 per cent in Walsall. But many female workers, especially in the services sector, are part-time - 42 per cent in Wolverhampton, for example.

One of the most dramatic switches in the labour market can be seen around the Merry Hill shopping centre in Dudley and its adjacent office complex. There was once a steelworks on the site. Now in place of foundries and blue-collar jobs, there are services and white-collar jobs. At the shopping centre there are 4,000 jobs, half of them part-time.

It is just such a change in occupation that the TECs are being forced to address. Given that the Black Country is out of step from the national demographic trend of a lower number of young people entering the labour force, a minority of whom in any case are interested in manufacturing, employment growth will be increasingly dependent on the willingness of women to work.

This throws up cultural difficulties in the Black Country. Many jobs, especially in manufacturing, have been deemed exclusively masculine preserves. Preconceptions exist on what job is appropriate to

whom. Attitudes, according to Dudley TEC, may be "old-fashioned" and thus "the awareness of the demographic factor has yet to bite."

The Black Country is also idiosyncratic in its reliance on small companies. In Walsall, 85 per cent of companies and in Sandwell 90 per cent of companies employ fewer than 25 people. In Dudley 56 per cent of companies employ fewer than 10 people. But small companies are notoriously reluctant, frequently unable, to invest in training: the Walsall TEC found that less than half the companies with fewer than 10 employees were involved in any form of training.

Dudley TEC has noted that, during the 1980s, the area's base of skills was not enriched. There was a training shake-out in the early 1980s and this was not matched by increased training in the more prosperous years which followed. "The big problem not being addressed is the upgrading of employees already employed."

Skills shortages, across both the manufacturing and services sectors, emerged in 1986-87. They exist even now, but to a much lesser extent, in the depths of the 1990s recession. The Wolverhampton Borough Council is expecting slow expansion in its area to 1996, but it warns, "skill shortages

remain a constraint on economic growth".

Against the background then of both recession and a changing labour force, the TECs of Dudley, Sandwell, Walsall and Wolverhampton, each of them small in the national pantheon of 82 TECs, have to run to standstill. The corporate propensity in troubled times is to cut back on training, not to expand it. Still, in Walsall at least, the TEC believes it is having some effect. "We are beginning to make an impact, particularly in getting employers to continue training and not to switch off - that is where the bulk of the effort is going," said Mr David Frost, the vice-chairman.

Like their peers, the Black Country TECs are charged by the UK government with the administration of youth and employment training. They undertake expected tasks: encouraging links between employers and schools, offering succour to small companies, helping to provide courses for those wishing to re-enter the labour force, taking part in the national Investors in People programme which offers awards to companies particularly active in training.

But there have also been two innovative schemes which may well have a wider application. The first of these came from Dudley where the TEC, following the medical profession, is planning a system of locums for manufacturing companies. The idea is to provide locums to companies so that permanent employees can be released from their normal production work for training programmes.

The locum service would be staffed by skilled redundant workers, the newly retired and those in the final part of their training who need work experience. The second scheme came from Walsall and is designed to strengthen the existing employment base by helping companies which might need advice. Called the Business Health Check Service, any company in Walsall may have a free diagnosis aimed at identifying weaknesses and offering solutions. But the company in question would have to pay for continuing consultancy.

Stewart Dalby

Paul Cheeseright



Derelict land: the legacy of 200 years of mining and industry in the area

Stewart Dalby discusses the problems of land reclamation

Underlying difficulties

MOST of the urban development corporations have had problems with land reclamation. The 11 urban development areas which the corporations are charged to regenerate are sited in semi-derelict, rundown docklands or areas of former heavy and dirty industry.

Steel, chemicals, coal and shipbuilding industries in Sheffield, on Teesside, around Manchester and in Newcastle-upon-Tyne have left contaminated and degraded land in their wake as factories, mines and shipyards closed down.

Arguably, the biggest problems in reclaiming land for new development has been faced by the Black Country Development Corporation.

Its area was one of the cradles of the industrial revolution. The problems are not just of what has gone into the land, but what has gone on underneath it, says Mr John Nicolls, the development director of the Black Country Development Corporation.

"You are dealing with the legacy of almost 200 years of mining and industry. As part of our area is in a river basin there have also been problems of sewage sludges," Mr Nicolls says. "It is not called the Black Country for nothing."

The industry grew up because of the availability of raw materials in the area, notably coal and ironstone, limestone and Etruria marl.

Problems of reclamation start with disused coal mines and mine shafts. There is on longer any deep-level mining in the BCDC area but still some open-cast mining.

Mr Norman Perry, the chief executive of Wolverhampton Borough Council, says jokingly: "Some of the land is like an Aero bar."

This is an apt description although the land probably is hardly that riddled. But mine shafts have to be identified, and often are found beneath filled-in land. Accordingly, the old mining maps have been dusted off and the ground has been probed. Once the shafts are located they are grouted (filled) with liquid cement and capped with concrete, if the land is to be developed. In one well-known case, the problem of possible subsidence was resolved by open-cast mining. Running through the BCDC area is a thick coal seam known as the Staffordshire Thick Seam which in parts is 10 metres wide.

On one potential site, British Coal mined the coal in an open cast. It dug out the land until the seam was reached and recovered 500,000 tons of coal over 100 acres. This involved going down around 59 metres. This land is to be the site of Sandwell 2000, a flagship shopping project.

Limestone caverns can cause greater problems than disused coal mines. Even if a cavern has been grouted with colliery waste and liquid cement, the roof often does not settle and subsidence can take place. In one instance a "crown hole" appeared in the roof of a limestone cavern. This was a hole in the ground which apparently was big enough to contain a double-decker bus.

Mr Nicolls emphasises that the area covered by the development corporation does not have problems with limestone to any significant degree.

The extraction of Etruria marl creates the problem of what has been put into the ground. Etruria marl is a clay used for making bricks. In the past great pits have been dug out and they have been filled with waste products and sewage and there have been problems with landfill gases such as methane.

One solution is to remove the contaminated land but this is becoming increasingly expensive because registered

tips are filling up and are becoming difficult to find. However, new techniques allow encapsulation of contaminated land by building barriers and this saves venting of the landfill gases.

Because of government demands higher standards for treatment of land are now required and this means costs are rising.

This could involve the BCDC in greater expenditure. At the moment reclamation and decontamination can cost up to £100,000 an acre.

The BCDC does not reclaim all the land itself. In the corporation's last annual report it said that since 1987, when the corporation was set up, reclamation has progressed on 470 acres of land. Where private developers have undertaken reclamation and decontamination the BCDC has been able to subsidise the work by giving the developers city grants.

Mr Nicolls says there has not been any reclamation or development where the technical problems have been insuperable or the cost prohibitive.

While individual developments may not have been affected, the state of the land has clearly been responsible in part for delays in building the Spine Road.

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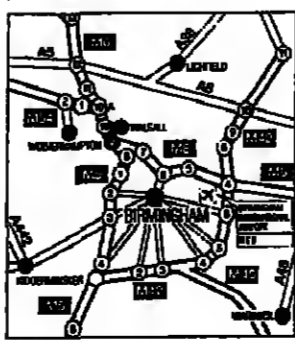
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JUNCTION 9 M6

BLACK COUNTRY 4

Stourbridge is the traditional heart of the crystal industry

Glass roots go back 300 years

RICH deposits of fireclay started it. George Ravenscroft's discovery that, if lead oxide is added to a glass composition, the glass will be heavy, gave it a push. The Stourbridge crystal industry 300 years on still makes a significant contribution to the Black Country economy, one of those pockets of specialised activity which makes regional industry so diverse.

Roughly, the UK produces about 9,000 tonnes of crystal a year. Probably around half comes from in and around Stourbridge. "It is the traditional heart of the crystal industry," noted Mr Tony Doyle at the British Glass Manufacturers' Confederation.

Crystal is a luxury product, frequently bought as a gift rather than for own use, and one of those British crafted products which find their niche in export markets. But it is not immune to recession. The Department of Trade and Industry's Business Monitor reported 1990 production of "domestic and ornamental" glassware - hand-gathered worth £59.9m, but the 1991 first quarter return at £10.4m was markedly lower than the £12.5m recorded in the 1990 first

quarter. The Stourbridge part of the industry is broadly split three ways.

First, there are the large independent producers such as Stuart Crystal and Royal Brierley Crystal. Second, there are producers such as Royal Doulton Crystal, which are part of larger groups - in this case, part of Pearson, which also owns the Financial Times.

Third, there are a host of medium and small producers, sometimes the result of individuals spinning off from larger groups, sometimes the result of training programmes carried out by the International Glass Centre, an annex of Dudley College of Technology.

The structure of the industry is in constant flux. "While the numbers employed by larger companies has decreased, there's been a bit of a revival from people going to smaller companies or going independent," said Mr Doyle. "The market for our type of product has shown consistent growth. The number of manufacturers capable of meeting this demand has reduced dramatically," commented Mr Roger Paul, the managing director Stuart Crystal.

The most notable recent factory closure was that of Edinburgh Crystal, which, as Thomas Webb and Sons, was one of the most powerful 19th Century operators. Latterly, part of the Coleroll group, it closed when its parent went bankrupt.

Mr Paul believes that, although there is no need for future rationalisation, it will in fact take place, largely because of inadequate capitalisation. Although Mr Doyle

find it difficult to get paid. Mr Jeff Rowbottom, after working 16 years for Stuart Crystal, took voluntary redundancy and this year set up Roma Crystal, specialising in the production of customised products.

In the wholesale trade, he said, "I could do as much as I like, but people won't pay. You send out a 30-day invoice and you can forget about it for 12 months." Consequently, he confines his activities to production for which he is certain to be paid. "If I over-commit, I can put myself under."

Stourbridge producers are under continuous competitive pressure from imports, often mechanically-made crystal, but one of the main selling points of the local product is its handcrafting. This can be interpreted in different ways. "Many of the companies have developed the practice of buying blank glassware and decorating it. We turned our face against that," said Mr Paul. Stuart Crystal, he went on, uses the full range of manufacturing methods to make its own glass.

There are two main objections to mechanically-made crystal. The first is commercial. The tradition of hand-crafting, handed down from

father to son, is part of the marketing appeal. It would be difficult to sustain with extensive mechanisation. The hand-crafted product has its own place in the market.

The second objection is technical. "It is usual on the Continent, with 24 per cent leaded glass, to make that mechanically. But if you stick to 30 per cent and more, which is traditional British crystal, it is more difficult to work it mechanically," said Mr Doyle.

A further by-product of the hand-crafted approach is the development of tourism based on crystal. The larger glasshouses offer tours and Black Country glassmakers have a memorial in the form of the Broadfield House Glass Museum. Now there are plans for Himley Hall, a stately home once the seat of the Earls of Dudley but more recently in the ownership of the Dudley Borough Council.

The proposal is to turn it into a National Glass Centre, by transferring to it the Broadfield House collection, enlarging the range of exhibits and extending educational and research facilities.

Paul Cheeseright

Wolverhampton, Dudley and Sandwell are candidates for city status to celebrate the 40th year of the Queen's reign

noted that "the larger people are not doing that well". Stuart Crystal's sales are running slightly higher than a year ago and the company's employment roll of 580 has remained constant.

Smaller companies frequently appear to be caught in the classic recessionary bind which is of so much concern to the business organisations and, indeed, to the government: they

skills are precisely what is needed for the construction of environmental equipment. But there is not the design capability," Professor Appleby said.

His way of coming to terms with that is to establish joint ventures with German companies. "There are very few potential suppliers. The German suppliers are falling over themselves with work."

The Black Country Environmental Initiative will accept this reasoning. A study for the City Action Team, examining the implications of the Environmental Protection Act, carried out by Ecotec Research and Consulting, suggested that there is the potential for this diversification of Black Country industry, but that the diversification would need close official support.

This will be the commercial underpinning of an effort to co-ordinate the varied environmental work, carried out by local authorities, central government agencies and voluntary bodies.

Paul Cheeseright

Business telephone guide

Compiled by Jayne Pearce

3-4 star hotels:

Dudley: Ward Arms 0384-458070
Sandwell: West Bromwich Moat House 021-553-6111
Walsall: Baron's Court 0543-452020; Fairlawn 0922-551222
Forte Post House 0922-335555; Friendly Lodge 0922-724444
Wolverhampton: Connaught 0902-24433; Goldthorne 0902-29218; Mount 0902-752055; Park Hall 0902-331121; Patshull Park 0902-700100; The Victoria Park 0902-29922.

Local authorities:

Dudley Metropolitan Borough Council 0384-458000
Sandwell Metropolitan Borough Council 021-553-2200
Walsall Metropolitan Borough Council 0922-650000
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Government regional offices:

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Motor component industry

Under pressure to change

AUTOMOTIVE component manufacturers in the Black Country, like their peers in the sector throughout Europe, are under pressure to change their commercial and working practices but they start on a different base from many of their competitors. The manner in which they respond will be crucial to the economic future of the region.

The increasingly stringent quality, cost and timing demands of the vehicle makers, coupled with the new market opportunities which came from the expansion of the British industry through the arrival of Japanese car assemblers, as well as the strengthening of the European Community's internal market, provide the backdrop for change.

But the recession makes the change more difficult. Some Black Country companies have been facing reductions of more than 30 per cent in the size of their order books. Where production has held up, margins have tended to narrow. It is as if the companies cannot break out of a trend line of problems.

The recession of the early 1980s sharply reduced the size of the industry. Recovery in the mid- and late 1980s was accompanied by fierce competition on prices that held down margins and reduced the possibility of local corporate collaboration - just the sort of collaboration which now, in fact, would be useful in meeting the demands of the 1990s.

Component makers account for about 20 per cent of all manufacturing jobs in the Black Country. What makes the sector individual is the high proportion of small and medium-sized companies, many family-owned, and the fact that they rarely produce complete component systems: the emphasis is on the manufacture of single components or sub-systems.

Historically, there has been a high dependence on the provision of components directly to Rover, Ford, General Motors and Jaguar, in that order. But these assemblers, like their competitors, are reducing the number of suppliers with which they are prepared to do business directly. And they are looking for longer-term and more co-operative relationships with the manufacturers of component systems.

Many Black Country component makers are thus likely to find in the 1990s that their primary business relationships will be, not with the assemblers, but with the component systems makers. They will be sub-contractors or sub-sub-contractors.

The West Midlands Enterprise Board and Wolverhampton Polytechnic recently produced a study of the Black Country components sector, partially based on a survey of a representative cross-section of 30 companies. This found that of the 30, only nine were automotive specialists and that most were metal based. Professor Colin Appleby, head of the enterprise studies unit at the Polytechnic, noted that in Ger-

many producers tended to be large and specialist.

The implication seems to be that the Black Country industry may be due for further rationalisation. The critical decision for the non-specialist companies would be whether they should continue that way. "The market is likely to polarise into specialists. General companies find it difficult to spend to bring themselves up to the quality required," Professor Appleby observed.

This, of course, is not to suggest that all the Black Country companies are weak and ineffective. Of the 30 companies in the survey 12 were private but 18 were the subsidiaries of larger groups. Indeed, leaders of the British components sector, like GKN, have manufacturing units in the Black Country. In any case, the industry is becoming less localised as car assemblers cross national boundaries for the purchase of their components and as component makers spread out internationally. Thus, there has been in recent years, a movement of German groups into the Black Country - Eisenwerk Brühl and Lemforder, for example.

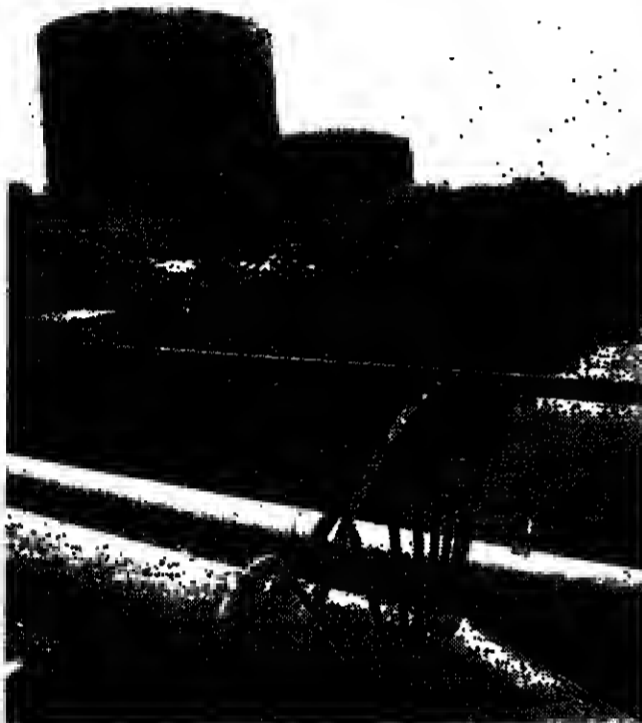
There is little doubt that growing internationalisation of the car industry, certainly up to the end of the first half of 1991, helped British car makers and component suppliers. Declining figures would have been worse without exports. But it looks as if this phenomenon provided only limited relief to the Black Country. More than a third of the companies have no exports at all, and only about a fifth have exports accounting for 30 per cent or more of turnover, according to the Enterprise Board and Polytechnic study.

For the next few months, the prospects are therefore discouraging. Domestic new car sales remain at a low ebb and demand is slackening in the main continental European markets such as Germany. For the longer term, the picture is different.

The market for the component makers is widening, not only because of the Japanese presence but also because of the investment programmes of the European assemblers. Whether the Black Country suppliers will be able to take advantage of this depends on many factors. These include higher levels of investment, the development of, or tapping into, a stronger design capability, the strengthening of the local industry through more joint ventures and a stronger commitment to training of the existing workforce and of newcomers.

By European standards, the Black Country workforce is relatively cheap. But as soon as demand expands skill shortages appear: they have done so before and nothing has happened to suggest that they will not return.

Paul Cheeseright



Environmental initiative: cleaning areas which need cleaning

ENVIRONMENT

Clean-up poses problems

THE Department of Environment next month will launch the Black Country Environmental Initiative. It is, of course, part of the process of trying to clean up an area which needs cleaning. But there is a serious commercial element which, over the medium term, could have the effect of turning to profit what promises to be a painful period.

The background is the Environmental Protection Act which over the next five years, will tighten up, inter alia, the emission controls on industrial plants. There are very serious implications here for the Black Country (andries, one of the bases of the traditional metal-processing industries. By the end of the month local plants will have to file with local authorities five-year plans on how they will carry out the cleaning. As it is, local authorities have closure orders on some plants, although they have not acted on them.

The problem for the foundries is paying for the environ-

mental controls without losing competitiveness. Earlier this year, Professor Colin Appleby of the enterprise studies unit at Wolverhampton Polytechnic, led industrialists to Germany to examine the question. In continental Europe, and Germany, in particular, his report observed: "Legislation has been in force for a number of years and emission control equipment is more technically advanced and capable of achieving limits considerably lower than those presently anticipated in the UK."

Existing British practice to trap particulate emissions is often to use wet systems which are probably only 65 to 70 per cent efficient. In Germany, the

practice is to use dry bag scrubbers, meeting tighter emission controls than exist in the UK. These scrubbers are cheaper in terms of capital and operating costs. But in Germany the foundries habitually use cleaner scrap than is the habit in the UK, where the material is often oily and hence gives rise to much of the visible smoke from a foundry.

Professor Appleby says the automotive component industry and the environmental control question are closely related. The worst problems come in the volume sector where there is continuous melting of metal. But there is an offsetting factor.

"Many of the Black Country

skills are precisely what is needed for the construction of environmental equipment. But there is not the design capability," Professor Appleby said. His way of coming to terms with that is to establish joint ventures with German companies. "There are very few potential suppliers. The German suppliers are falling over themselves with work."

The Black Country Environmental Initiative will accept this reasoning. A study for the City Action Team, examining the implications of the Environmental Protection Act, carried out by Ecotec Research and Consulting, suggested that there is the potential for this diversification of Black Country industry, but that the diversification would need close official support.

This will be the commercial underpinning of an effort to co-ordinate the varied environmental work, carried out by local authorities, central government agencies and voluntary bodies.

Paul Cheeseright



Wolverhampton prize: nearly £40m is earmarked for the regeneration of two wards adjacent to the town centre

Wolverhampton to get nearly £40m in City Challenge scheme

Regeneration programme

WOLVERHAMPTON will receive nearly £40m of central government funding for the regeneration of two wards adjacent to the town centre. It has bid for, and won, a place in the UK government's City Challenge programme.

City Challenge represents the government's new approach to urban policy. It is based on the ability of local partnerships, including the local authority, to compete for a finite supply of funds. It is aimed at bringing all sections of a community into alliance for a concentrated attack on deprivation in a narrowly defined area.

The combined public-private sector presentation made by Wolverhampton for the two districts of St Peter's and Low Hill succeeded in convincing Mr Michael Heseltine, the environment secretary, that over a period of five years an economic and social revival could take place. It succeeded where, for example, Birmingham failed in its bid.

This competitive element in bidding for funds, overriding an approach based on the allotment of money to urban areas which need it, depending on how indices of deprivation are calculated, has attracted criticism from urban specialists and politicians. But in the Wolverhampton case it means an infusion of funds which other-

wise would not have happened. What it obtains is money siphoned away from another potential destination because the total amount of central government spending on inner urban areas is not being increased.

The Wolverhampton City Challenge area is home for 22,000 people of whom 10,400 are ethnic minorities: Sikhs from the Punjab, Muslims from Pakistan and Afro-Caribbeans. It is an area heavy with council housing, much of it defective. Most local employment is in manufacturing, the largest employer being Goodyear. But the area is bisected by a dual carriageway, crossed by railway lines and divided again by a canal which from time to time causes flooding.

Unemployment is a consistent problem. In mid-year St Peter's unemployment rate was running at 21.9 per cent. That of Low Hill was slightly less. Among the unemployed, 38 per cent in St Peter's and 37 per cent in Low Hill have been jobless for more than a year. In the first of these wards 58 per cent of tenants receive housing benefit, in the second 76 per cent.

If the Wolverhampton scheme, over a period of years, is successful, economic growth will occur, helped by the geographical position of the wards as the gateway to the town and

to the national motorway network. This will have the effect of strengthening and enlarging the town centre, to the south of the City Challenge area. But the Wolverhampton proposals also stress training and education as a means of helping the St Peter's and Low Hill residents to take advantage of opportunities which may arise in the wider regional economy.

What the Wolverhampton presentation called "the vital catalyst for the area's and the city's regeneration" is the development of three sites: the rundown leisure facilities of the Wolverhampton Wanderers football stadium at Molineux, the Dunstall Park racecourse and a derelict gasworks site of 40 acres.

But the details of the plan go beyond property development and education and training to health care, crime reduction and prevention, housing, environmental revival and community development. Each of these seven prongs of activity has a list of the partners or groups who will bring about change, thus meeting the government demands that City Challenge proposals should be a combined effort.

The administrative structure for the running of the City Challenge programme likewise reflects an attempt to balance different interests in the community. At the top of the struc-

ture there is a "partnership board" made up of five people from private sector business, four representatives from the Wolverhampton Metropolitan Borough Council, four representatives from community groups and three representatives from other local bodies.

Wolverhampton Polytechnic, the Health Authority and the Wolverhampton and Bilston Trades Council.

The executive staff will be confined to eight people, led by a director on a salary of £30,000 a year. This will be supported by another group made up of officials from central government, local authorities and groups such as the police, the probation service and the local training and enterprise council.

The third tier of the structure is two advisory groups, made up of community representatives on one hand and business representatives on the other.

Work on the detailed application of the broad plan presented to Mr Heseltine is now taking place. But if present intentions are followed through, just over £7m will be spent in the first year of the programme, 1992-93, rising to £10.12m in the second year, before declining to £5.06m in the final and fifth year.

Paul Cheeseright

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INSIDE

Hoesch board member dismissed

The increasingly bitter takeover bid for Hoesch, the German steel and engineering company, by its neighbour Fried Krupp, has claimed a casualty with the dismissal of a leading member of the Hoesch board. Page 21

Brent Walker in pub leasing plan

Allied-Lyons, the UK brewer, is close to agreeing a deal with Brent Walker whereby the lajeura group would lease and manage about 750 of its pubs. However, Brent Walker still needs the approval of its shareholders for its refinancing proposals. Page 20

Norwegian banks rescued

Norway's state bank insurance fund and the guarantee fund of the savings banks are providing two savings banks, Sparabanken Midt Norge and Sparabanken Rogaland, with a conditional Nkr1.13bn rescue package. Page 21

No cause to celebrate

Staff at HTV, the independent television contractor for Wales and west England, face a pay freeze and redundancies following its successful £20.53m (\$35m) bid to retain its franchise. "We have absolutely got nothing out of it," said Mr Charles Romaine, chief executive. Page 20

Polly Peck injunctions

Administrators to Polly Peck International, the UK-based fruit to electronics group, have been further frustrated in efforts to access assets of the group's Cyprus companies following two injunctions taken out on the island. Page 20

Borrowings head for a high

The volume of international borrowings could reach a historical high of \$500bn, says the Organisation for Economic Co-operation and Development. Page 23

Market Statistics

Base lending rates	29	Managed fund service	25-29
Enron/Amstar turnover	29	Money markets	29
FT-A World indices	29	New int bond issues	29
FT/ABO int bond avcs	22	NR Tokyo bond index	22
Foreign exchange	29	US money market rates	22
London recent issues	29	US bond yields/yields	22
London share services	25-31	World stock and indices	24

Companies in this issue

Acta Lite	21	Matra	21
Allied-Lyons	20	Maxwell	20
Brent Walker	20	Noranda	21
Conrad Continental	20	Polly Peck Int	20
Fina	21	Rosehaugh Develop	20
Fried. Krupp	21	Serif Cowells	20
HTV	21	Stiebel	21
Hoesch	21	Spareb'ken Rogaland	21
		Spareb'ken Midt Norge	21

THE DISMISSAL of Mr Rod Canlon, president and chief executive of Compaq Computer, was not a knee-jerk reaction to bad quarterly results, according to the company's chairman, Mr Benjamin Rosen.

The dismissal, late on Thursday night, came two days after Compaq announced the first quarterly loss in its history, a \$135m restructuring charge, and plans to cut about 1,400 jobs, 12 per cent of its workforce.

Mr Canlon was one of Compaq's co-founders. He led the company from its birth nine years ago, helping it grow into the leading manufacturer of IBM-compatible personal computers with 1990 sales of \$3.6bn.

He has been replaced by Mr Eckhard Pfeiffer, who set up Compaq's subsidiaries in Europe. Mr Pfeiffer is credited with having built Compaq's international sales to almost \$2bn, from scratch, in just six years. In January, he joined the company's headquarters in Houston, Texas.

Compaq founder fired because board 'had to make a choice'

By Louise Kehoe in San Francisco

as chief operating officer.

Until this year, Compaq had an unbroken record of sales and earnings growth, which it attributed to management consensus and continuity. Last week, however, it reported an 18 per cent decline in third quarter revenues and a net loss for the quarter of \$70m, including restructuring charges.

Mr Rosen, Compaq's chairman, is a venture capitalist who provided Compaq with its initial funding. He said Compaq's directors began their regularly scheduled meeting on Thursday with the task of re-defining top management responsibilities following the re-organisation of the

company into two business units - one focused on personal computers and the other on systems products.

There had been discussion over the previous few days of the creation of an "office of the president" to be shared by Mr Canlon and Mr Pfeiffer, but Mr Canlon did not favour the idea, according to Mr Rosen. Associates say the two men have very different management styles.

Mr Rosen said that the board finally decided, after deliberating for 14 hours, that it was essential to have "a single leader, and so we had to make a choice". Mr Pfeiffer's achievements in Europe and his experience in the cost-

sensitive semiconductor and consumer electronics markets gave him the edge, Mr Rosen said.

He said Mr Pfeiffer was also chosen because the company faced the "intense urgency of reducing costs and the increasing globalisation of the industry".

Nevertheless, the choice was a clear rejection of Mr Canlon and his consensus management style, which has been criticised for delaying decisions. In contrast, Mr Pfeiffer is described by associates as a "directive manager".

Critics argue that Compaq has not moved fast enough in reacting to changes in the personal computer market, which have undermined its profitability.

Mr Rosen said: "We were late in lowering prices." He added that Compaq should have responded sooner to price competition and that it was late in emphasising cost cuts. Mr Canlon opposed lay-offs, while many of the company's competitors were paring jobs.

Mr Rosen claimed that, over the past two years, Compaq "spent an awful lot of money on developing systems products", such as network servers, and fell "a little bit behind on desktop personal computers".

Was Mr Canlon to blame? "We all made mistakes, the chairman of Compaq made mistakes," said Mr Rosen.

Mr Mike Swaveley, former president of Compaq's north American operations who retired in July, said: "Change was overdue at Compaq." Compaq's past success had induced a "self-satisfied view of the world" that bred reluctance to adapt to changing circumstances.

However, he said the manner in which the management transition was handled at Compaq was "totally inappropriate, totally uncivilised and totally uncalled for".

Mr Canlon had played a key role, he said, in establishing the "Ace Initiative" - a group of leading companies that aims to establish standards for the next generation of personal computers.

Mr Swaveley said: "I would be concerned that when the time is right for the next industry initiative, that Compaq will not be ready. You have to have credibility in the industry to get competitors to agree to collaborate. It takes personal credibility and that takes time to establish."

Costain's share price has continued to fall amid fears over the UK recession

A difficult climb back up the ladder

The share price of Costain, the UK construction, property and mining group, has lost three quarters of its stock market value in little more than 200 days.

The fall has been prompted by concern over trading during one of the worst recessions in the UK residential and commercial property markets and by fears that the company may have to make substantial provisions to cover losses on the Channel tunnel construction contract.

Last Monday Costain's share price fell 13 per cent to close at a low of 55p for the year. By Friday night the share price had crept back to 60p, compared with a peak value of 220p in March.

Only 14 companies out of the 661 which comprise the FT All Share Index have endured a bigger fall in their share price since the beginning of the year.

Mr Peter Costain, the group's chief executive, says the decline takes no account of the progress the group is making in reducing its borrowings or the underlying value of its cash-producing construction and coal mining businesses.

However, investors continue to worry about UK housebuilding and commercial property.

Since 1988 group pre-tax profits have collapsed from £88.2m to £5.5m (\$9.4m) last year.

Mr Khalid Nazam, construction analyst at stockbrokers UBS

Phillips & Drew, forecasts that Costain this year will make a loss of £30m after further provisions which he says the group will have to make against its housing and commercial property operations.

The UBS forecast also includes a £10m provision to cover potential losses on the Channel tunnel.

Andrew Taylor looks at the background to the UK group's problems

So far, Mr Costain has said there will be no provisions on the contract. Even so the group is unlikely to pay a final dividend when the results for the year to December are published next Spring.

By then, Costain hopes a recovery in the UK housing market will have begun and it will be able to report further progress in reducing borrowings through disposals. These are likely to include the sale in the next few months of most, if not all, of the group's commercial property investments.

Negotiations are understood to

be taking place on several fronts. Sale of the County & District portfolio is expected to reap about £100m.

A further £50m of potential sales, including a gold mine and a waste disposal business in the US, have also been identified by Costain.

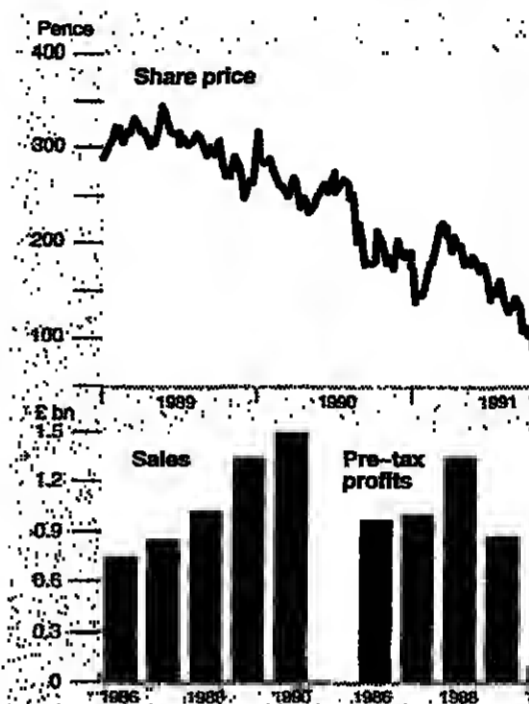
The group needs the money. Net debt, currently £385m including £70m of off-balance sheet finance and £40m of redeemable preference shares, remains uncomfortably high.

It represents three quarters of shareholders' funds of £390m; and this is after a two-for-seven rights issue which raised £77m in the spring.

Costain's problems arise from its attempts to diversify by re-investing the proceeds from its quality construction and engineering business into UK housebuilding and coal mining in the US and Australia.

The investment in coal has been dogged by bad luck. Problems with housebuilding have been compounded by unfortunate management decisions made as the UK housing market peaked in 1988 before moving into a deep recession from which it has yet to emerge.

Costain's first error was to continue to buy land at top prices when other housebuilders had become concerned about the level of over-heating in the market. Subsequently, Costain has



been forced to make provisions of £37m against its housing land. Further provisions are likely this year.

The group was also slow to introduce sales incentives when it became apparent that the market was moving into recession. In 1988 Costain sold almost 1,900 homes. In 1989 this had fallen to less than 700, a fall of more than 60 per cent.

Given the size of the group's borrowings, it would have been better to have pursued sales and cash flow at the expense of lower margins.

Borrowings rose steeply in 1989 when Costain bought the Pyro coal mining company in the US for \$195m. Overnight, gearing increased from a quarter to three quarters. Annual interest charges of £5.5m in 1988 more than tre-

bled to £33.9m last year. The US recession, which has reduced demand for power, and an explosion at one of Pyro's mines in West Kentucky, which hit production and increased overheads, has meant that profit growth has not been as great as it might have been.

Nevertheless, the business has remained profitable and Costain says it will benefit from improvements to management and operating procedures.

US coal prices, after a weak period in the first half of this year, have also started to rise, it says.

Australia, which produces about 7m tonnes of coal annually, compared with 16m tonnes in the US, remains a good business.



Peter Costain, chief executive

The group's strategy is to concentrate on its "core businesses" of contracting and mining. Housing land will be developed and the cash raised used to reduce debt. Commercial property will be sold off. It is unlikely that the group will be involved in speculative house building or commercial property development in five years.

Meanwhile, Costain faces a hard slog. It has done well to maintain its contracting order book but this sector will probably remain under pressure for the next 18 months as UK construction output declines in the face of property market pressures.

Disposals have still to be achieved but the group hopes this year will finally mark the low point in its fortunes.

A month of mixed signals in the UK

OCTOBER has been a pretty confusing month for Mr Norman Lamont, Britain's chancellor, and the Treasury.

The latest UK retail sales and manufacturing output figures were disappointing, but business confidence, as measured by the Association of British Chambers of Commerce, has bounded ahead.

While the chambers of commerce concluded last week that the economy was still in recession, the Treasury still expects a recovery before next spring. The pound's membership of the exchange rate mechanism of the European Monetary System makes it difficult, if not impossible, for British interest rates to fall below those of Germany.

In effect, Britain faces the sort of uninspired economic recovery experienced by its ERM partners before Germany began to boom at the end of the 1980s as a result, first, of large-scale immigration and, later, reunification.

Given the mixed signals on the economy, Mr Lamont must be relieved that the government is not in the middle of an election campaign. If current trends hold any consolation for the chancellor, it is that he has repeatedly asserted in recent months that recovery, when it comes, will be gradual.

ment is not in the middle of an election campaign. If current trends hold any consolation for the chancellor, it is that he has repeatedly asserted in recent months that recovery, when it comes, will be gradual.

Trade conversion
Since becoming chancellor 11 months ago, Mr Lamont has shown consistency in another area: as an advocate of free trade and a speedy conclusion to the Uruguay Round of trade liberalisation talks.

His exhortations have appeared bold in the context of the European Community's often laggardly approach to the trade negotiations.

But it was clear at the annual meetings of the International Monetary Fund and World Bank earlier this month

that the industrial countries are no longer in the forefront of free trade.

In recent years some 45 developing nations have unilaterally opened their markets, while non-tariff barriers and other restrictions have proliferated in richer countries.

According to Mr Ernesto Hernandez-Cata, a senior IMF economist, "a profound intellectual change" in favour of market-based economics has swept through countries such as Mexico and Chile and is getting underway in Argentina.

Some people who heard Mr Hernandez-Cata in Bangkok thought he was exaggerating.

But at a meeting of bankers and government officials a few days later, Mr Angel Gurria, Mexico's under-secretary for international finance, displayed all the zeal of a convert by urging a representative of the Indian government to "go as fast as you can" in cutting tariffs and fiscal reform.

Another enthusiastic advocate of free market economics is Mr Alejandro Foxley, the Chilean finance minister. He says that gaining better access to industrial country markets will be the key issue for developing countries in the decade ahead.

"If all the existing barriers that prevent developing countries from selling their goods could be removed at a stroke, this would do more good to the developing countries than doubling the flow of aid," he said.

Economics Notebook

By Peter Norman

Off the rails

Liberalisation - be it in trade or the financial sector - creates dislocations in the oddest places. This is something that the Belgian and Luxembourg railway networks are discovering.

Since Belgium embarked on a sweeping reform of its financial sector in 1989, there have been fewer well-heeled Belgian citizens shuttling between Brussels and Luxembourg city on what used to be known as the "coupon-clippers' express".

This was the train that left Brussels a comfortable hour after breakfast arriving in Luxembourg for lunch. Early afternoon was the time to visit the bank and look after the investments. The return journey, starting just after tea time, would bring the passengers back to Brussels in time for dinner.

But the fun-elad women and velvet-collared men with their slim attaché cases have been less evident since February last year when Belgium reduced withholding tax on interest from bonds and most bank deposits from 25 per cent to 10 per cent.

Capital has been moving back into Belgium. Mr Alphonse Verplaetse, the governor of the Belgian National Bank, said residents repatriated some Bfr185bn (£3.1bn) last year while the inflow of capital from non-residents into Belgium was about Bfr120bn in the first half of this year.

These figures help explain the recent strength of the Belgian franc in the EMS. But the Belgian experience should also give the UK government some food for thought.

Apart from tax-exempt special sever accounts (TESSAs) and certain National Savings and friendly society products, the interest earned on savings in the UK is taxed as income. With EC monetary integration and completion of the Channel tunnel in prospect in the years ahead, the coupon clippers' express could experience a revival - between Britain and the continent.

BAe cash call hopes dwindle

By Clare Pearson in London

THE £432m (\$738.7m) rights issue for British Aerospace looks likely to flop when it closes at 3pm this afternoon after weekend speculation that 25 per cent or less of the offer would be taken up by shareholders.

On Friday, BAe's shares closed 17p below the rights issue price of 380p. The two-for-one offer is lead managed by securities houses Kleinwort Benson and Hoare Govett. It is

British Aerospace

Share price (pence)



Source: Datastream

fully underwritten, so BAe will get its cash. But a low take-up would leave unwanted stock with the underwriters.

An unsuccessful BAe issue would make it harder for companies to tap the equity market in the wake of the many rights issues of recent months.

A £280m issue for Hilldown Holdings, the food, furniture and property group, achieved only 48 per cent take-up two weeks ago. Next month's government sale of shares in British Telecom, expected to raise £5bn, will also squeeze institutional liquidity.

The BAe outcome is expected to be announced 24 hours after the close.

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COMPANIES AND FINANCE

Refinancing holds key to negotiations with Allied-Lyons Brent Walker in pub leasing plan

By Clare Pearson

ALLIED-LYONS, the food and drinks group, is in the final stages of negotiation with Brent Walker on a deal whereby the leisure group would lease and manage some 700 of Allied's pubs.

An announcement on the plan may come this week. However, it will be dependent on Brent Walker gaining the approval of its shareholders for its refinancing proposals.

For Allied, the deal would mark a sizeable move in the direction of cutting the size of its tied pub estate in order to comply with government orders on the number brewers may own. These must be met by November next year.

Allied last week announced plans to merge its brewing interests with those in the UK of Carlsberg, the Danish brewer, in a deal which would make the joint company the third largest player in the market.

The 1989 government beer orders meant it had to release from the tie some 2,300 pubs.

So far it has sold about 700 and has leased others.

Brent Walker already has a 1,123-strong estate to which it can add the new pubs. Contracts would be signed so that Allied would continue to supply them with beer and other drinks.

Brent Walker also owns a brewery in Hartlepool of which it plans to dispose, along with a portion of its pub estate.

Completion of Brent Walker's refinancing plans has been long-delayed, the most recent obstacle being the intervention of a private shareholder, Count Alexei Orlov, who has raised the prospect of alternative proposals.

However, if Brent Walker carries out its plans to post details of its own proposals to shareholders by the middle of next month, they will be put to the vote before Christmas.

If Allied goes ahead with it, this will be the largest leasing deal struck in response to the government requirements by any of the big brewers.



Michael Jakaman, chairman of Allied-Lyons

Bas last month announced the outright sale of some 372 pubs to a new company, Enterprise Inns. However, the number of houses earmarked for disposal, and the depressed property market, have put obstacles in the way of this

solution to the problem. Under such leasing arrangements, Brent Walker would benefit through the differential between the rent it pays to the brewer and the rent paid to it by the tenant, together with other income.

Rosehaugh sales chop £70m from borrowings

By Scheherazade Daneshkhu

ROSEHAUGH Developments, the property company headed by Mr Geoffrey Bradman, is to announce today about £90m of sales concluded since July 1.

It estimates these will reduce its borrowings by about £70m. In July, it said its interim on-balance sheet borrowings totalled £350m.

The company is hoping the announcement will clear the path to a merger with Stanhope Properties. The two are joined by the common bond of Rosehaugh Stanhope Developments and have been in talks for several months.

Rosehaugh will confirm the sale last Friday of its 40.3 per cent minority interest in Rosehaugh Greycoat Estate Holdings, with Ravensale, its partner, to British Land, headed by Mr John Rithlat. Rosehaugh estimates its share from the sale will be in the region of £45m.

Mr John Weston Smith, a director of British Land, said the deal gave his company the opportunity to acquire controlling interests in well-let investments. Rosehaugh Greycoat Estate owns 1 Finsbury Avenue, the City headquarters of SC Warburg, and other properties on the edge of the Broadgate development in London's EC.

Rosehaugh is also to announce the sale of a portfolio of commercial and residential properties to Ravensale, which also took place on Friday.

Ravensale, which is headed by Mr Ronnie Jarvis, is assuming an interest in the properties and responsibility for some £23m of Rosehaugh borrowings. Once the properties are sold, Rosehaugh estimates it will derive a further £10m.

Other sales described as "lots of bits and pieces" amounting to £20m since July, will also be confirmed.

Maxwell refinances £80m loan

By Bronwen Maddox

Robert Maxwell Estates, a private company controlled by publisher Mr Robert Maxwell, has completed the refinancing of a £80m syndicated loan against the Holborn Circus headquarters of Mirror Group Newspapers and West London properties.

The renewal of the loan, which has been organised by Barclays Syndications and Lloyds Bank Capital Markets Group, is believed to have been dependent on clarification by Maxwell companies of their debt reduction plans and future structure.

Mr Maxwell announced in July that Maxwell Communications Corporation, one of his publicly-listed companies, would demerge its North American interests to increase shareholder value.

Since the start of September, public and private Maxwell companies have announced asset sales worth more than £250m.

HTV celebrates its win with pay freeze and redundancies

By Raymond Snoddy

THE STAFF at HTV, the independent television contractor for Wales and the West, are to face a pay freeze and further redundancies in the wake of their successful £90.53m bid to retain the franchise.

Unlike most other ITV companies there were no golden handouts and there will be no special bonuses paid as a result of winning the licence.

"We have absolutely got nothing out of it," said Mr Charles Romaine, the chief executive, who added that there would actually be a pay cut for non-executive directors.

There had not even been a party so far for the team that saw off three rivals, although one is planned for the end of

January which will double up as a farewell for retiring executives.

They include Mr Patrick Dromgoole, the former managing director who has resigned as director and as chairman of HTV International.

The cost-cutting atmosphere was part of a strategy to ensure that the return to shareholders remained attractive despite the size of the bid. In a circular to shareholders HTV set out the costs and benefits of the new system.

In an illustrative calculation it worked out what the new regime would cost at 1990 prices compared with the television operating profit of £5.8m, before exceptional

items, in 1990.

Under the new bidding system, including real reductions in net operating costs, HTV Television came up with an illustrative operating profit of £12m.

HTV will lose Channel 4 and Welsh Fourth Channel advertising revenue of £9.3m but would no longer have to pay a C4 subscription of £17.5m nor Exchequer levy of £5.6m. In place of the levy, it had to pay 2 per cent of advertising revenue or £1.8m.

The company is counting on operational savings of £11.7m. As a result, it clearly believes in breakeven or better this year, followed by solid profits despite the £20.53m bid.

PPI administrators checked again

By John Murray Brown in Istanbul

ADMINISTRATORS to Polly Peck International, the fruit and electronics group, have been further obstructed in their efforts to gain access to the assets of PPI's Cyprus companies following two injunctions taken out on the island.

Mrs Safiye Nadir, mother of Mr Asil Nadir the PPI chairman, took legal action on Friday to prevent the sale or transfer to third parties of Unipac, the Farnagusta packager, and Sunzet, the fruit exporter.

Mrs Nadir was one of nine persons named in a £1bn litigation last week by Mr Christopher Morris, one of the three UK court administrators.

In addition Industrial Bank of Cyprus, a bank owned and set up by Mr Nadir, is suing Pearl Construction, a PPI company on the island, and the Girne View Hotel, also owned by PPI, for £1.16m.

The administrators have been frustrated since last October by a series of injunctions

taken out by Mr Nadir's interests in Cyprus.

The administrators had earlier argued they only wanted to get a full picture of the group's activities and did not envisage having to sell the assets.

The Cyprus companies are now thought to hold the answer to the whereabouts of money cited in last week's litigation in London against Mr Nadir, his mother, Mr Montes Azis his lawyer, and five others.

NEWS DIGEST

£3.6m loss at Serif Cowells

SERIF COWELLS, the USM-quoted printing, publishing and leisure group, suffered a £2.13m turnaround to record a loss of £1.13m in the first half of 1991. On top of that were extraordinary charges of £2.6m to give a total deficit of £3.6m.

Turnover was valued to £16.3m (£33.1m) reflecting the ending of the licences to distribute Trivial Pursuit and Nintendo. The loss was £355,000 (profit £1.05m) to which was added £278,000 reorganisation costs.

Losses per share were 4.6p (earnings 2.7p) and the interim dividend is omitted (1.5p). Despite £3.7m raised by the sale and leaseback of the Ipswich site, borrowings remained high at £5.6m against a reduced asset base.

Usborne to refocus on pig production

Usborne, the pig producer and property developer, has made a £4.4m provision for losses on a Fulham development joint venture and discontinued businesses, and said it has withdrawn from property development.

The company was announcing interim pre-tax profits of £771,000 (£1.27m) on sales up 11 per cent at £90.63m.

The provision reduces the capital by nearly a quarter. The interim dividend is cut from 0.5p to 0.1p. Earnings per share fell from 1.28p to 0.77p. Mr Derek Sawyer, the chair-

man, said the company would now concentrate on pig production, grain marketing and other agricultural services.

Conrad Continental loss cut to £380,000

Conrad Continental, which operates a garment division and the Bobby Charlton leisure businesses, cut its loss from £469,000 to £380,000 in the first half of 1991.

Following the sale of the

fashion accessories business the ongoing operations reduced their loss from £531,000 to £299,000 on turnover of £3.26m (£1.92m).

Overall losses per share came to 1.43p (£5.5p). The directors had hoped for a better result following the rationalisation, but they did not foresee the continuing length and depth of the recession.

However the second half was expected to show a bigger improvement, they said.

NORTHERN IRELAND

The FT proposes to publish this survey on November 26 1991.

It will be of particular interest to 54% of top chief executives in Europe who read the FT. If you wish to reach the FT's business readers by advertising in this survey contact:

Charles Blandford,
Financial Times,
20 Upper Merion Street,
Dublin 2
Tel: Dublin 761 184
Fax: Dublin 762 125

Data source: Chief Executives in Europe 1990

FT SURVEYS

An eastern flavour to cross-border deals

LAST week's larger international corporate transactions had a distinctly oriental flavour, writes Brian Bollen.

Hong Kong businessman Mr Li Ka-Shing is expanding his interests in North America by taking full control of Husky Oil. The purchase of a further 43 per cent stake, from debt-laden Nova Corporation of Alberta, will lift his holding to 85 per cent.

Mr Li Ka-Shing also agreed

to buy 49 per cent of a New York office block from international property company Olympia & York, which described the joint venture as an important strategic alliance between two of the world's foremost property development families.

The ongoing restructuring of Europe's insurance and insurance services industry saw JIB Group, the London-based insurance broker subsidiary of Jardine Matheson, take a 27

per cent interest in SIACI, a French retail and wholesaler broker. This strategic move into Europe will help reduce JIB's near-total dependence on English-speaking markets.

The week also saw further moves in the realignment of Europe's drinks industry. The £510m joint venture between Allied-Lyons and Denmark's Carlsberg marks another big step in the consolidation of brewing in the UK, following

the Monopolies and Mergers Commission deliberations on the industry.

UK food and drink retailer Grand Metropolitan consolidated its presence in Greece by buying the 70 per cent it did not already own in Kalyonnis Brothers, the country's leading ouzo producer.

Daimler-Benz subsidiary AEG agreed to sell its cable business to France's Alcatel Alsthom as part of its strategy of concentrating on core activities and restoring profitability. The purchase increases Alcatel's penetration of the German market, where it bought two other companies earlier this year.

Aker, the Norwegian industrial group, completed an important stage in its North American expansion strategy by buying 51 per cent of Texas-based Gulf Marine Fabricators, makers of offshore oil and gas platforms.

De La Rue, the UK banknote printer not so long ago a prime takeover target itself, continued its growth and launched a £160.3m rights issue to help pay for the £94.7m purchase of Swedish competitor Inter Innovation, saying the balance would be used for further acquisitions.

Banco Hispano Americano is backing the bid by Franco-British paper group Arjo Wiggins Appleton for Spanish paper merchant Corporacion Comercial Kangaroo.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Allied-Lyons (UK)/Carlsberg (Denmark)	UK JV	Brewing	£510m	Further sector consolidation
Grand Metropolitan (UK)	Kalyonnis Brothers (Greece)	Spirits	£23.7m	Mora market consolidation
De La Rue (UK)	Inter Innovation (Sweden)	Auto cash machines	£94.7m	Agreed cash deal
Li Ka Shing (Hong Kong)	Husky Oil (Canada)	Oil & gas	£130m	Taking full control
Arjo Wiggins Appleton (UK/France)	Corporacion Comercial Kangaroo (Spain)	Paper	£23m	BHA backs "cheap" bid
Molynx Holdings (UK)	American Auto-Matrix (US)	Control Products	£2.9m	Rights issue funded
Molynx Holdings (UK)	ISC Computerautomation (Germany)	Control Products	£1.5m	AAM licensee
Alcatel Alsthom (France)	AEG Kabel (Germany)	Cable	n/a	Refocusing sale
Aker (Norway)	Unit of Peter Klewet (US)	Oil & gas construction	n/a	Strategic expansion
DST Systems (US)	Talsman Services (Switzerland)	Computer services	n/a	DST takes 50% stake

Source: FT Mergers & Acquisitions International

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Payment will be made on Barclays Investment Funds (Luxembourg) on or after the 31st October 1991 (or divided 31st July 1991) at the following rates per share:

North American Equity - USD 0.2882 International Bond - USD 0.8836
European Equity - GBP 0.0007 International Equity - GBP 0.0147
Pacific Equity - GBP 0.0029 UK Equity - GBP 0.0423

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Barclays International Fund Managers, c/o Barclays Bank PLC Hong Kong, 18th Floor, Two Pacific Place, 220 Canton Road, Hong Kong.
*Barclays Bank PLC, Stock Exchange Services Dept., 168 Fenchurch Street, London EC3P 2HP, United Kingdom.

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In accordance with the provisions of the notes, notice is hereby given that for the interest period from 28 October 1991 to 28 April 1992 the rate of interest on the notes will be 5 1/2% per annum.
The interest payable on the relevant interest payment date, 28 April 1992 will be US\$6,830.73 per US\$250,000 note.

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COMPANIES AND FINANCE

Hoesch bid fight hots up as board member is sacked

By Quentin Peet in Bonn

THE increasingly contested takeover of Hoesch, the German steel and engineering company, by its neighbour Fried Krupp, claimed a casualty this weekend, with the dismissal of a leading member of the Hoesch board.

An emergency meeting of the company's supervisory council in Dortmund on Saturday decided to relieve Mr Constantin von Dziembowski, the member responsible for "enterprise development", of his responsibilities, "with immediate effect".

The supervisory board also expressed its "indignation" at the manner in which Krupp had behaved towards Hoesch.

in acquiring 24.9 per cent of the group shares without prior consultation.

No explanation was given for the action against Mr von Dziembowski, but he is named in an article in the latest issue of Manager magazine as the board member appointed by Mr Kajo Neukirchen, the new company chairman, to conduct negotiations with possible "co-operation partners".

The magazine reported that Mr von Dziembowski and Mr Gerhard Cromme, chairman of Krupp, had agreed on potential important areas for collaboration.

However, Mr Cromme had not kept Mr Neukirchen

informed of his intentions of acquiring a possible majority stake in Hoesch.

The latest development coincided with a statement by Mr Cromme, rejecting suggestions that as many as 10,000 workers could lose their jobs in the merger of Krupp and Hoesch operations - but refusing to give any guarantee that no jobs would be lost.

In an interview with Der Spiegel, the weekly news magazine, the Krupp boss repeated his intention to acquire a majority shareholding in Hoesch, and said that a merger of the two Ruhr steel giants could produce cost savings of DM300m (\$175m) a year.

Property provisions dent Aetna Life profit

By Nikki Taft in New York

DESPITE making further sizeable provisions against property-related investments, Aetna Life & Casualty, the largest shareholder-owned insurance group in the US, has posted third-quarter net profits of \$115.3m.

This compared with \$86.6m a year earlier. However, the 1990 figure had been badly dented by a \$90m reorganisation charge, which was not repeated this time.

Mr James Lynn, chairman, said "continued adverse conditions" in the commercial property market hit earnings by \$81m in the third quarter. That figure, he added, encompassed further additions to mortgage loan reserves, real estate write-downs and lost investment income.

The damage, he said, was offset by the strong performance from Aetna's life and health insurance operations.

The third-quarter 1991 profit is struck after net realised capital loss of \$41m, compared with a deficit of \$38m in the same period a year earlier. That \$41m figure includes additions to reserves for mortgage loans and property write-downs of \$73m - a sharp increase on the \$34m incurred for similar reasons a year ago.

However, the life and health division posted earnings up from \$72m - before the reorganisation charge - to \$82m, thanks partly to the absence of losses from some recently sold health businesses.

Financial services swung from earnings of \$6m to a loss of \$46m, due largely to the real estate provisions. Commercial property-casualty made a \$32m gain, against \$37m, while personal property-casualty turned in a loss of \$2m, against a gain of \$12m a year ago. Catastrophe losses, mainly due to Hurricane Bob, reached \$19m in the quarter, against \$9m.

Costal Corporation, the Houston-based diversified energy company, posted third-quarter net earnings of \$3.4m, or 3 cents a share against \$3.3m, or 31 cents, writes Rivka Nachoma in New York. Operating revenues were unchanged at \$2.2bn.

Heavy costs and slow demand hurt Matra

By William Dawkins in Paris

PROFITS at Matra, the French space, telecommunications and transport group, fell steeply in the first half of the year, hit by heavy development costs and a slowdown in demand for telecommunications equipment.

Operating profits were more than halved to FF317m (\$55m) from FF719m in the first half of 1990, a turnover which rose slightly to FF12.5bn, on a comparable group structure.

Group net profits fell more steeply, to FF64m from FF249m, partly reflecting the partial deconsolidation of Ufima, the loss-making car components company. Matra is planning to withdraw from Ufima, in which it has a 35 per cent stake. Fiat, the Italian car maker, has the rest. The French group has therefore decided to account only for its share of Ufima's equity, rather than consolidating it fully.

This change also brings adjusted turnover down to FF10.5bn.

Matra said it was difficult to make forecasts for the year, given the continued difficult economic environment, though profits in the current half should exceed the first six months' earnings.

Matra's telecommunications activities made a loss, because they had to bear the costs of developing equipment for the future pan-European mobile digital phone network when markets for existing products were deteriorating.

The car division's results were affected by the preparation and gradual onset of production of the latest model of the Espace family van, made by Matra under the Renault badge. The launch of the Espace had been a commercial success, said Matra.

1st/90	Pool purchase price (£/MWh)	Pool selling price (£/MWh)	Pool purchase price (£/MWh)	Pool selling price (£/MWh)
00/00	15.81	15.84	15.84	15.84
00/01	15.86	15.85	15.85	15.85
01/00	15.86	15.85	15.85	15.85
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02/28	15.86	15.85	15.85	15.85
02/29	15.86	15.85	15.85	15.85
02/30	15.86	15.85	15.85	15.85
03/01	15.86	15.85	15.85	15.85
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03/08	15.86	15.85	15.85	15.85
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03/11	15.86	15.85	15.85	15.85
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05/25	15.86	15.85	15.85	15.85
05/26	15.86	15.85	15.85	15.85
05/27	15.86	15.85	15.85	15.85
05/28	15.86	15.85	15.85	15.85
05/29	15.86	15.85	15.85	15.85
05/30	15.86	15.85		

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Tory lag in polls may shake prices

THE gilt-edged market looks set for a bumpy ride as political, economic and funding worries return to the foreground of investor attention.

The gilts market has witnessed two strong rallies so far this year, in the period to the middle of February and then from the beginning of July to late September, mainly on the back of the government's good showing in opinion polls, and hopes of falling inflation and interest-rate cuts.

However, the third-quarter rally appears to have run out of steam, and the main reason is political.

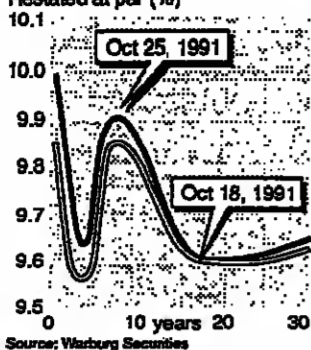
The most recent opinion polls show the Labour party enjoying a lead over the Conservatives, helped by rows about the National Health Service.

In yesterday's Sunday Times/MORI opinion poll, support for Labour, at 46 per cent, was six points ahead of the Conservatives.

This is the fourth consecutive

UK gilts yields

Restated at par (%)



Source: Warburg Securities

Oct 25, 1991

Oct 18, 1991

Source: Warburg Securities

Source: Warburg Securities

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US MONEY AND CREDIT

Talk of tax cuts flusters traders

THE US Treasury bond market last week staged one of its typical knee-jerk reactions to talk by politicians in Washington of possible tax cuts that would be aimed at stimulating the flagging US economy.

The market engaged in a substantial sell-off early in the week, in spite of the fact that an agreed tax cut is unlikely to be enacted soon.

But that was followed by a minor rally last Thursday as more statistical evidence pointed again to the faltering trend in the US economic recovery.

The market's over-reaction to talk of tax cuts began on Monday, after a weekend television appearance by Senator Lloyd Bentsen, chairman of the Senate finance committee, in which the Senator proposed \$72bn of tax cuts during the next five years.

As traders began to sell, the 30-year benchmark US Treasury bond closed on Monday at 100 1/4, its yield - 8.07 per cent - thus stood above the 8 per cent mark for the second week running.

The sell-off continued on Tuesday as the White House tried to counteract the Democratic tax cut proposal by picking up Washington's slogan of the week - tax breaks for the middle class. As far as traders were concerned, it did not matter that the Bush administration again tried to push its proposal for a cut in capital gains taxes, an old saw that has been on the table since President Bush took office in January 1989.

Bond market fears that fiscal

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	5.19	4.88	5.00	11.00	2.00
Three-month Treasury bill	5.09	5.16	5.27	8.29	5.09
Six-month Treasury bill	5.03	5.25	5.34	7.70	5.03
Three-month Treasury CD	5.20	5.07	5.40	7.12	5.20

INTERNATIONAL CAPITAL MARKETS

SYNDICATED LOANS

Kuwait seeks to join top borrowers' club

KUWAIT, which made its debut in the international capital markets this month with a \$5bn syndicated loan, is lobbying the Basle committee of bank supervisors for admission to the top club of country borrowers to increase its attractiveness to international lenders.

Kuwait carries the full risk weighting under the Basle guidelines on international bank capital adequacy, but would like to be upgraded to have a zero risk weighting.

Basle committee sources have indicated that changes to guidelines on risk weighting for capital adequacy purposes may be introduced to establish a more objective system of classifying country borrowers.

At present, the top category of country borrowers consists of the full members of the Organisation for Economic Co-operation and Development (OECD) and those countries which have arrangements with the International Monetary Fund through the general agreement to borrow (GAB). Saudi Arabia, which is not an OECD member, was allowed to join the top category because of its record in providing funds to the IMF.

However, the decision to admit Saudi Arabia to the top club of country borrowers was seen as unfair by other Middle Eastern countries such as Bahrain and Kuwait, especially as the latter has assets estimated to be worth some \$70bn.

In addition, some of the less wealthy countries are annoyed by the guidelines, pointing out that these discourage international banks from agreeing to

loans of more than one year in maturity to less developed countries.

The Bank of Algeria points out in a recent memorandum that the tougher capital adequacy requirements imposed by the Cooke ratios of the Bank for International Settlements "have had some impact on the behaviour of international banks", leading to changes in "the attitude and strategy of banks vis-à-vis developing countries" and "diminishing the possibilities of access of those countries to the international market for capital".

The memorandum goes on to say: "According to the Cooke methodology, assets and off-balance-sheet elements are weighted as a function of their assumed degree of credit risk. The question arises of the choice of weighting coefficients. Indeed, it is noted that the weighting coefficient applied to a particular loan or risk, where this concerns a sovereign risk or its equivalent, is not a function of the intrinsic credit or the debtor, but whether or not it is a member of a specific institution, namely the OECD. For non-OECD members, the weighting applied is the same for all with no other measure of the actual situation of each country."

When Saudi Arabia borrowed \$4.5bn this year, the loan was zero risk weighted. But when Kuwait launched its \$5bn syndicated loan this month to help cover the cost of reconstruction, some banks cited the fact that it had a full risk weighting as a reason for not joining the list of lead managers.

In fact the loan was oversubscribed by \$6bn and has been launched into general syndication. However, Kuwait is still keen to have its full risk weighting changed to a zero risk weighting, which would certainly please the participating banks.

The Basle committee seems unwilling to bend the rules for Kuwait alone. But it is free to review the situation at any time and may consider doing away with its arbitrary club arrangement, replacing it with a more objective system.

Sara Webb

INTERNATIONAL BONDS

Volume of borrowings up 14% for first eight months

THE LATEST Organisation for Economic Co-operation and Development report on financial market trends highlights the recovery of the international capital markets, with new financings so far this year totalling \$320bn.

The volume of international borrowings - including international bonds and shares, Eurocommercial paper, medium-term note programmes, and committed and uncommitted facilities - arranged in the first eight months of this year shows a 14 per cent rise on the same period last year. The report points out that this rate of growth is close to the average experienced in the second half of the 1980s and, if sustained, would bring the annual borrowing total to a historical high of \$500bn.

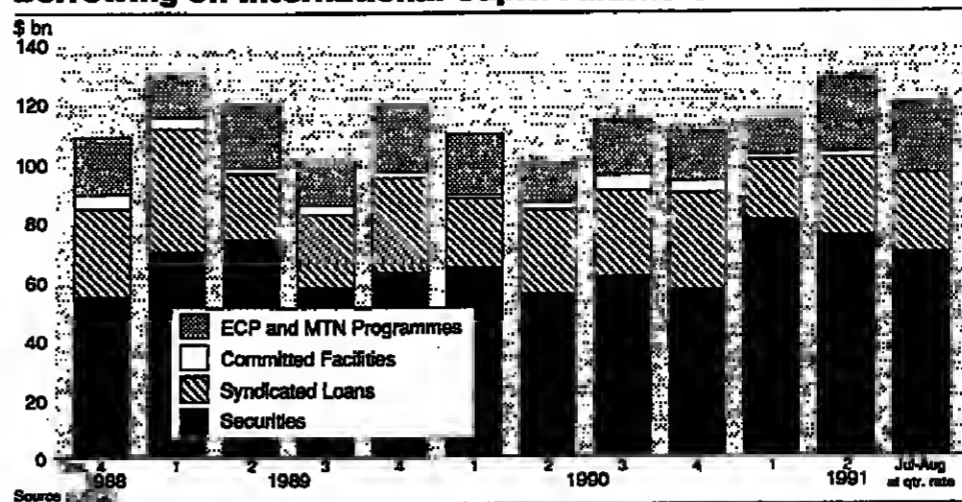
However, the latest statistics also point to a shift in sources of borrowing. The overall surge is due to the record volume of new offerings in the international securities markets. However, the volume of new commercial paper programmes and similar medium-term borrowing facilities has fallen below that recorded in recent years, and the syndicated credits market has "continued at a very sluggish pace", the report notes.

The OECD expects overall volume to be sustained during the final quarter of the year, and also suggests that the dichotomy between the strong performance of the securities markets and the depressed state of the syndicated loans market will continue, unless an improving financial environment encourages banks to resume lending to second-tier borrowers - which the report deems "not very likely".

From January to August, borrowing on external bond markets was up 30 per cent on the same period last year. The market in floating-rate notes (\$12bn) remained becalmed but the volume of both straight bonds (\$148bn) and equity-related securities (\$38bn) surged. Among currency sectors, the growth of the Euro market, now the second largest sector, has been the most dramatic, with volume so far this year already some 40 per cent higher than for 1990.

Other smaller sectors, such as the Canadian dollar and the peseta, have also experienced growing interest from borrowers and investors. The "smaller" markets now make up 35 per cent of the market, while the historically dominant dollar sector accounts for only 30 per cent.

Borrowing on International Capital Markets



Among the factors which adversely affected the syndicated loans market were poor economic conditions, the contraction in merger and acquisition transactions, and the cautious approach to lending adopted by many banks. The volume of newly signed loans was down 16 per cent at \$63bn. The report estimates that volume for the year will be about \$100bn, which would be the lowest figure since 1987. The volume of newly estab-

lished Euro-commercial paper programmes has also declined sharply, but the number of medium-term Euro-note programmes has surged to \$27bn, compared with last year's total of \$16bn, reflecting investors' growing demand for high-quality and liquid paper, according to the report.

Borrowers in the international capital markets continue to come mainly from OECD countries. Japanese borrowers are still the largest group, with

offerings totalling \$22.4bn, the highest recorded, while US corporate borrowing slipped to 10 per cent of the total, from 15 per cent in the late 1980s.

But the most important change is the "markedly heavier recourse to the market by developing countries", the report notes. Such borrowing is still confined to a small number of countries, and represents less than 7 per cent of international financing. Nevertheless, LDC fund-raising has

risen by more than a third since 1990, mainly due to the return of Latin American countries to the market.

According to Euromoney data, the World Bank has been toppled from its position as the largest borrower in the international capital markets by Statebank, which raised a total of \$17bn equivalent.

The strong performance of the international securities markets is good news for financial institutions, particularly after a lean year in 1990, when few firms found the securities business profitable.

Some credit is given to the fixed price re-offer method of syndication, which helped secure a certain margin of profit.

Stati Banka Ceskoslovenska, the Czechoslovakian Central Bank, is planning to launch a \$200m three-year Eurobond, via Nomura International. The borrower has not tapped the capital markets since before the Second World War, but funds have been raised by another Czechoslovakian issuer, Ceskoslovensko Obchodni Banka.

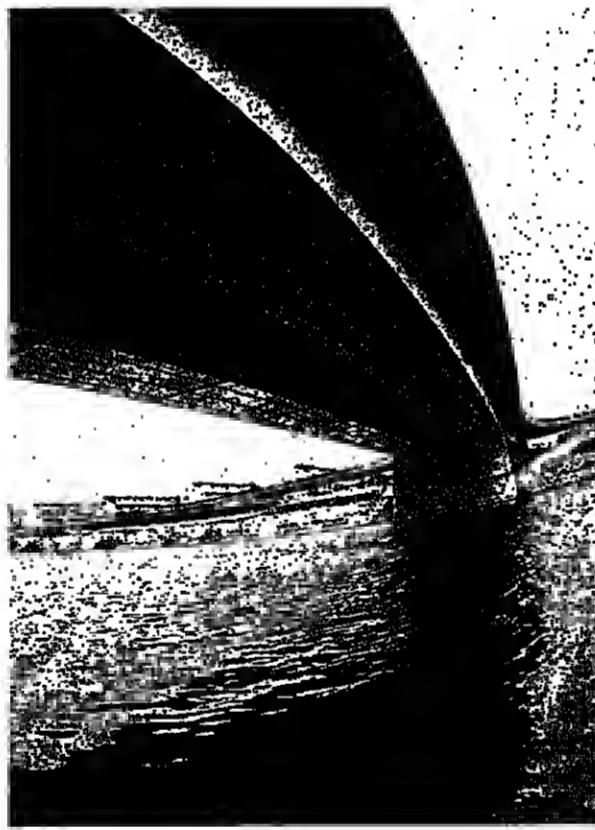
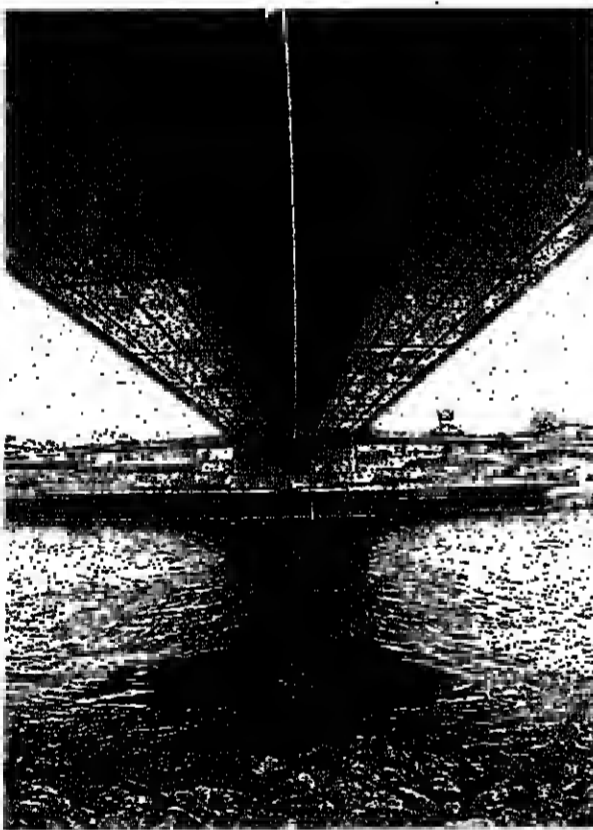
Nomura will also arrange a deal for Stati Banki in the Japanese Shibosai market.

Tracy Corrigan

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Hosiden Corp(US)	100	1996	4	4 1/4	100	Deiwa Europe	4.250
Dong-A(US)	25	2006	14.833	3 1/2	100	Baring Bros/Delshin	3.125
Suzutec Co.(US)	100	1995	4	4	100	Nomura Int.	4.000
City of Yokohama	200	2001	10	8	98.20	Bank of Tokyo	6.116
Sun Wave Corp	100	1995	4	4	100	Deiwa Europe	4.000
National Financier	120	2001	10	10 1/2	98.29	Chase Investment Bk	10.743
Nationwide Anglia A.E.(US)	150	1995	4	(9)	100	Merrill Lynch	-
Tokai Inc.	50	1995	4	8 1/2	100	Nikko Europe	4.250
Omarco Hydrot	500	2001	10	8 1/2	99 1/2	Goldman Sachs	6.325
EUROS							
Meruzen(US)	80	1995	4	8 1/2	100	Nikko Secs.	8.125
CANADIAN DOLLARS							
Bque.Nationale d'Paris	100	1997	6	9	101	Hambros Bank	6.782
Ball Canada	150	1996	5	8 1/2	101.70	UBS Phillips & Drew	8.848
Gen.Elec.Cap.Corp	150	1997	8	8	101 1/2	Hambros Bk	8.874
AUSTRALIAN DOLLARS							
Tasmanian Public Fin.Corp	100	2001	10	10 1/2	98.55	Deutsche Bk Cap.Mkts.	10.806
FRENCH FRANCS							
Calase Nat.d'Autoroute	1.7bn	1996	5	8 1/2	99.60	Credit Lyonnais	9.227
Credit Foncier d'France(US)	2bn	2004	12 1/4	9 1/4	98.95	Credit Lyonnais	9.267
D-MARKS							
Sekisui Jushi Corp	70	1995	4	5 1/4	100	Yamaichi Int.GmbH	5.250
SWISS FRANCS							
Chuo Paperboard(US)	50	1996	-	4 1/2	100	Nikko (Switz) Fin.	4.499
Other							
JFM(US)	160	1998	-	7	101 1/2	SBC	6.881
Bayerische Hypothekent	100	1995	-	7 1/2	102	Swiss Volksbank	7.019
Nippon Chemphar	100	1995	-	4 1/2	100	Sque.Paribas (Suisse)	4.500
Capcom(US)	100	1996	-	4 1/4	100	Nomura Bk (Switz)	4.294
PT Japfa Comfeed(US)	50	1995	-	5	100	SBC	5.000
Suncall Corp(US)	40	1995	-	2 1/2	78	Citibank (Switz) AG	8.850
Suncall Corp	30	1995	-	4 1/2	100	Citibank (Switz) AG	4.500
LIRE							
Deutsche Bk Finance	150bn	1998	7	11 1/2	101 1/2	Bca.O'Amere O'Italia	11.309
PESETAS							
Eurotime(US)	10bn	1996	5	11.20	101 1/2	Boo.Hispano-Americano	10.771
LUXEMBOURG FRANCS							
Interbrew Int.Fin.	750	1998	5	9 1/4	101.95	BGL	8.790
Cregem Int.	400	1994	2 1/4	8 1/2	102	Cregem Int.	8.600
Bque.CGER France	500	1994	2.167	9 1/2	101.95	Banque UCL	8.604
GB Int.	1bn	1998	7	9 1/2	102	KBL	8.737
Stand.Vieka Enskidet	750	1998	7	8 1/4	102	BGL	8.860
Credit Com.d'France	1bn	1998	7	9 1/4	102	BCEE	8.868
Gloverlux SA	1bn	1997	5.167	9 1/2	102 1/2	Credit European	8.818
BNP Canada	425	1996	7	9 1/4	102.10	BNP (Lux.)	8.841

*Private placement. *Convertible. *With equity warrants. *Floating rate note. *Variable rate notes. *Fixed terms. *Conversion premium fixed at 2.00%. Put option 31/04/94 at 100% to yield 7.000%. *Put option after 5 years at 125.000% to yield 7.1%. Conversion premium fixed at 2.00%. *Full name of borrower - Japan Finance Corp for Municipal Enterprises. Non-callable. *Exercise premium fixed at 2.00%. Non-callable. *Exercise premium fixed at 2.50%. Non-callable. *Exercise premium fixed at 2.50%. Non-callable. *Coupon pays 15bp over London Libor. Non-callable. *Maturity date. Non-callable. *Put option 31/03/94 at 100% to yield 7.450%. *Coupon payable semi-annually. *Put option 11/09/94 at 110% to yield 8.725%. Conversion premium fixed at 8%. *Coupon payable semi-annually. *Option to increase the amount by 20% at the latest price until 4/1/91. Notes: Yields are calculated on ABID basis.



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PORTUGUESE ESCUDOS 15,000,000,000

12% Bonds Due 23rd October 1996

Issue Price: 101 %

BPI - Banco Português de Investimento, SA
Caixa Geral de Depósitos

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Banco Hispano de Investimento, SA
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Banco de Fomento e Exterior, SA
EFISA - Engenharia Financeira, SA

Banco Bilbao-Vizcaya (Portugal), SA
Banco Português do Atlântico, SA
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Espírito Santo - Soc. de Investimento, SA
Finantia - Soc. de Investimento, SA

ABN - AMRO
Bayerische Vereinsbank, Aktiengesellschaft
Banca Commerciale Italiana
Commerzbank, Aktiengesellschaft
IMI Bank, SA Luxembourg
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Samuel Montagu & Co. Limited
Morgan Stanley International
Swiss Bank Corporation
Tokyo Sociedad de Valores (España) SA
(Bank of Tokyo Group)

October 1991

CANADA

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* Current Unit Trust prices are available on FT Cityline, call 0836 430000. Calls charged at 36p/minute exo rate and 48p/minute at all other times. To obtain your free Unit Trust Code Booklet call 071-925-2128

EQUUS East Gwth	5	54.64	4.640	4.900
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EQUUS Japan	5	55.124	5.124	5.449
FRANK Japan Fnd	5	54.747	4.747	5.084

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هَكَذَا مِنْ الْأَجْمَلِ

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

Market questions rate move timing

SINCE sterling was hit by the bout of nerves on the foreign markets a fortnight ago there has been a clear shift in sentiment on the London money markets about the timing of the next cut in UK interest rates.

UK clearing bank base lending rate
10.5 per cent
from September 4, 1991

Whereas a week ago there were still a substantial number of market participants who were predicting base rates would fall by 1/2 point to 10 per cent by the end of 1991, such optimists have now all but vanished.

This has been reflected in market rates. Three months inter-bank money closed on Friday at 10 1/4%, up by almost 1/2 point on the week. This rate closely shadows bank base rates and with it now decisively above 10 per cent.

The market is saying it expects no change in interest rates this year.

The cash market has always been more cautious in expecting another base rate cut: at no stage has it discounted a further 1/2 point rate cut this year.

Even the more volatile futures market has become more circumspect. In the run up to the Conservative party conference, futures dealers were clearly anticipating a 1/2 point reduction.

Now, no rate move is expected by the futures market this year and if the current trend continues one will not be pencilled in for next year either.

The reason for the change in sentiment is not hard to fathom. With sterling still close to DM2.80, the level the Bank of England recently chose to defend, the market is saying there can be no more reductions in interest rates, whatever the immediate needs of the economy.

£ IN NEW YORK

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Clayhills 9-2 pc Ln. 2000/1 (Section: Industrials)
Irish Life (Insurance)
Deletions:
American Distributors (Food)
CPU Computers (Electricals)
Copson (F) (Hotels)
General Host (Americans)
Perstorp (Chemicals)

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Continued on next page

MONDAY INTERVIEW

Defender of local services

Howard Davies, controller of the Audit Commission, talks to John Willman

The Audit Commission was one of the past decade's better innovations in local government. Set up in 1982, it has been the scourge of bad management in local services through its tenacious promotion of economy, efficiency and effectiveness.

It has also won grudging recognition of the value of its work from beleaguered councils which have increasingly acknowledged the need for effective stewardship of scarce resources.

Credit for this acceptance of the Audit Commission's role must go in large part to Mr Howard Davies, the current chief executive who is graced with the Orwellian title of controller. For in addition to exposing opportunities for better management of resources, he has been a staunch and articulate defender of the local delivery of services and the need for a stable tax base from which councils can operate.

Mr Davies has carved out a role as the equivalent of the French *énarque*. These are the graduates of the *École Nationale d'Administration* who move seamlessly between the private and public sector and public administration.

He spotted the need for a British equivalent in 1974, as a foreign office high-flyer at the British embassy in Paris. After moving to the Treasury, he took himself off to Stanford Business School on a Harkness fellowship, later joining McKinsey, the management advisers.

A period as part-time adviser to Mr Nigel Lawson, the chancellor, at the Treasury helped him keep a foot in both public and private sectors, and he succeeded Mr John Banham as controller of the Audit Commission in 1987. At the age of 38, he had reached a top government post 15-20 years earlier than would have been possible if he had stayed in Whitehall, a vindication of the career strategy he describes as "cross-dressing".

Now with the addition of the health service to the commission's remit, Mr Davies is a central figure in the drive to improve the quality, value and accountability of public services. He is convinced that an important step in achieving this is the separation of purchaser and provider.

"In the past, the purchaser and provider of public services have largely been the same. The problem with this is that you develop a service which is convenient for the producers and not the users. So the grass is always mowed on Thurs-

days, even though that's the day the local school needs to use the sports field. And expenditure is not rigorously controlled since no one has an incentive to cut costs.

"The absurdity of this was exposed in the rate-capping confrontation of the early 1980s, when councils campaigned for jobs and services - and ended up saving jobs at the expense of services."

Mr Davies detects an acceptance even in Labour councils that the purchaser/provider split provides a discipline for the provision of services through some form of contract or service agreement. One advantage is that it forces the purchaser to define the objectives of the services.

"If councils subsidise the prices of sports facilities, for example, the people using them certainly benefit. And non-users may decide it is worth paying a higher community charge to support facilities which get people off the streets who might otherwise be chucking bricks through their windows. What isn't rational is to subsidise squash courts for people who could afford to pay the full price. We found a lot of councils playing Robin Hood in reverse."

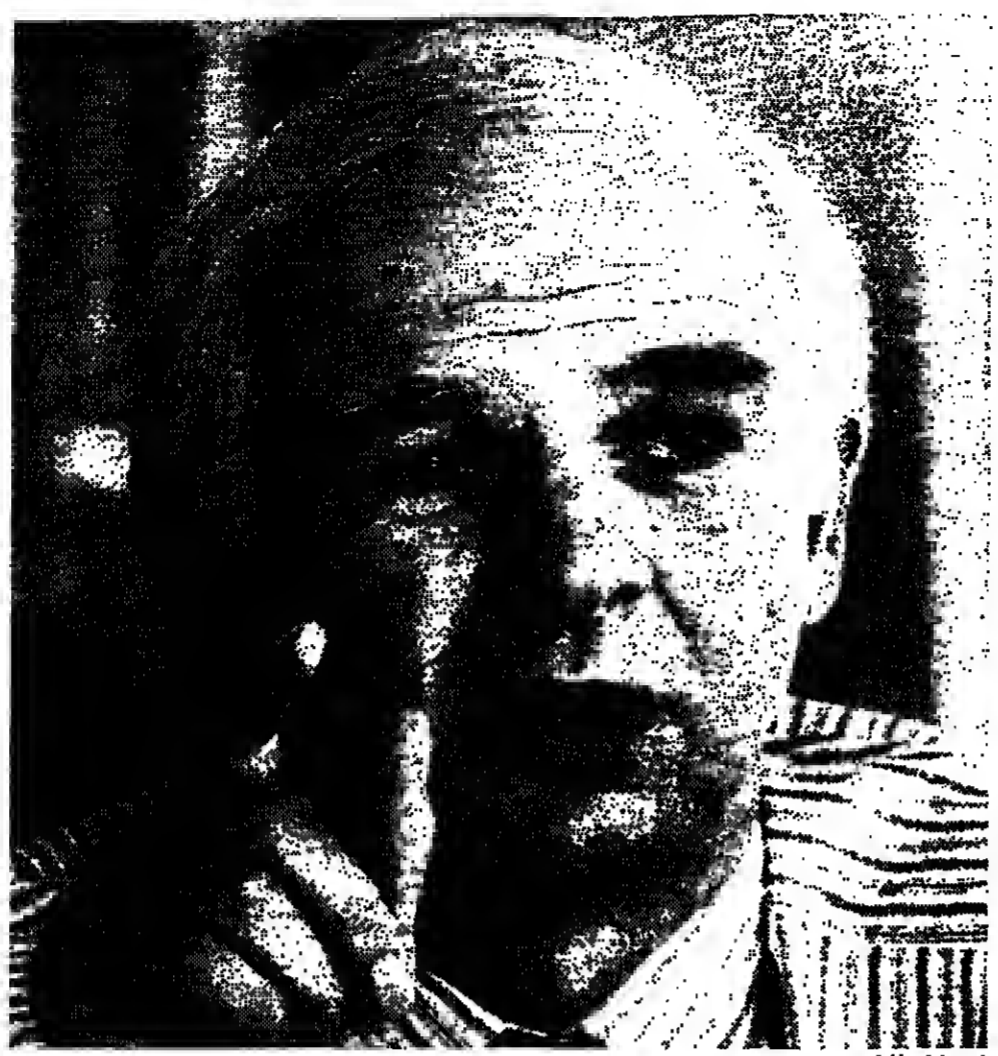
At the forefront of the search for better management of public services is what Mr Davies calls "syndicated management consultancy". He uses the example of a current study of bed management in the health service to illustrate the commission's approach.

"The bed is the unit of resource in a hospital, and the key question is how to use those beds to maximise the throughput of patients in a way which is compatible with good-quality health care."

"A study team looks at the ways different hospitals manage the problem in this country and overseas. It would consultants or specialists have their own allocation of beds? Should there be a bed clearing-house in the hospital?"

"At the end of the study, an audit guide is produced which details the best practice and sets out how it can be transposed elsewhere. The aim is a guide which can be used in every hospital and health authority, with national data, benchmarks, interview guides, questionnaires - even outline reports, with decision trees to highlight recommendations."

Although it is this value-for-money work which attracts the headlines, the bulk of the Audit Commission's work is in the audit of local authorities and NHS bodies in England and Wales. The commission



'Government should look again at the business rate'

has a statutory responsibility to appoint auditors for these bodies, and about two-thirds of council audits are performed by in-house auditors. The rest is contracted out to approved accountancy firms.

PERSONAL FILE

1951 Born in Prestbury, Cheshire. Educated Manchester Grammar School, Marton College, Oxford, Stanford Graduate School of Business.

1973-74 Foreign Office. 1975-76 Privata secretary to ambassador, Paris. 1976-82 Treasury.

1982-87 McKinsey & Co. 1985-86 Special adviser to UK chancellor.

1987- Controller, Audit Commission

In the recent debate over the responsibility of corporate auditors, Mr Davies ruffled some feathers by suggesting that this public sector approach could have benefits for the private sector.

"The model of audit appointment and regulation we use establishes a balance between the differing interests the auditor is working for. The individual council pays the audit bill, and this creates a cash nexus between the auditor and the customer."

"But if the council is doing something wrong, as in the case of Hammersmith and Fulham with currency swaps, or it is paying no attention to value for money as Liverpool did until quite recently, the auditor is required to make a public interest report. And because we appoint the auditors, the council cannot sack them in retaliation."

Although the commission could never take a formal stance on the introduction of the poll tax, Mr Davies made little attempt to conceal his

belief that it would not achieve the ends the government intended. He welcomes the new council tax, feeling that a property base is more suitable for local authorities. But he is worried that the introduction of the council tax on its own will not produce long-term stability for local government.

"The proportion of income local authorities raise for themselves will be as low as 15 per cent, a gearing of seven to one. If the link between taxation, spending and voting is broken, the key skill becomes grantsmanship, with councils looking upwards to government for more money rather than downwards, controlling costs and finding value for money."

"One solution is for local authorities to have more tax-raising powers. The government should look again at the national business rate which has not been a popular tax and which could be returned to council control. The alternative is to take functions away from local government, which is not something the commission would advocate."

When it comes to the government's proposals to restructure local government, Mr Davies confesses to a strong feeling of *ennui*. In a characteristically caustic phrase, he describes the role of the Local Government Commission as being a sort of Antiques Roadshow which will spend its time evaluating the merits of this much-loved rural district council or that ancient shire county.

He does wonder, however, at the failure of the government to discuss the consequences for local government of closer European integration.

"The word 'Europe' does not appear in the green paper on introducing unitary authorities. Yet the European Commission is open about its desire to create a *Europe des régions*. There's a European Assembly

of Regions and regional and social policy are oriented towards regional needs.

"It's certainly arguable that without some sort of regional structure, the UK will be increasingly disadvantaged with no way of influencing Community regional policy. My feeling is that we probably need to create a set of interlocutors on a regional basis who can have the right kind of influence on EC regional and social policies."

As for Mr Davies himself, what next? His *énarque* career development points to a return to the private sector. He has no direct experience of running a large company in a competitive environment, but at the Audit Commission he has managed a staff of 1,000 and a budget of £50m earned entirely through fees. At just 40, he has plenty of time to make at least two more career jumps across the public/private divide before retiring to the House of Lords.

EC ahead in trade stakes



MICHAEL PROWSE on America

Does the US feel threatened by Europe's plan to create a 15-nation free trade zone stretching from the Arctic to the Mediterranean? I was in Texas last week attending a Federal Reserve Bank of Dallas conference on free trade this side of the Atlantic. I can report strong enthusiasm for a US free trade zone, preferably extending further south than Mexico, but comparatively little anxiety about a single European market made up of 380m consumers.

In one session, the audience - mainly businessmen and economists - was asked whether the US would still dominate the world stage in 2050. Fewer than half put up their hands. The speaker was impressed, noting that less than 10 per cent of his college campus audiences was comparably optimistic. But who, he persisted, was likely to supplant America? The possibilities discussed were Japan, an Asian bloc of nations, and a united western hemisphere. Somebody finally mentioned Europe but this option was swiftly dismissed. In Dallas, the European Community is seen as too bureaucratic and fractious to pose a serious challenge to US economic or political leadership.

This may reflect the fact that Mrs Margaret Thatcher is one of very few European politicians to win popularity in the US. But it also stems from ignorance. In a thoughtful address, Mr Gerald O'Driscoll, a senior economist at the Dallas Fed, pointed out that Americans, enthralled by the economic development of Japan and the Pacific Rim during the 1980s, had failed to notice the winds of change blowing in Europe. In particular, they did not realise that the EC's 1992 programme was threatening to "leapfrog" the US. Excitement about a free trade pact with Mexico was ironic, he implied, when trade within the US was still heavily impeded.

The notion that the US lacks a free internal market may appear absurd; interstate barriers are explicitly forbidden by the commerce clause of the Constitution. But Mr O'Driscoll

says this protection is limited because courts have focused on the form rather than the content of statutes. Legislation allows informal non-tariff barriers to proliferate: for example Texas managed to ban Florida grapefruit for years by ruling that their relatively high acid content made them inedible. The most serious restraints are in service industries: many professions still impose state certification and licensing restraints.

Mr O'Driscoll is particularly exercised by restraints on US banking. From 1993, EC banking regulation will be based on the principle of "home rule". A Dutch bank, say, will be able to operate under Dutch law anywhere in the EC, even in countries whose own laws are stricter. This approach, based on the principle of "mutual recognition", will force all member countries to liberalise their banking regimes.

But the US is still wedded to "host state" rules: even if interstate banking is finally permitted, a Californian bank operating in Texas would have to obey Texan rather than Californian law. In a strange reversal of history, the EC may thus create a more efficient internal market than the US.

On the issue of enlargement, Europe also seems at an advantage. The countries knocking at the EC's door - such as Sweden and Switzerland - are among the most affluent in the world. Latin America, by contrast, has an average annual per capita income of only just over \$2,000 (£1,170). Mexico, by all accounts, is achieving miracles. But since its gross national product is only 4 per

cent of that of the US, free trade across the Rio Grande is unlikely to transform US living standards.

And enlargement beyond Mexico remains doubtful. Most Latin American countries want to reform their economies. But few - perhaps only Chile - were seen in Dallas as having the ability to persist with tough policies of the kind championed by Mexico. In a decade, long-term aspirants for EC membership, such as Poland, Czechoslovakia and Hungary, may well be in better economic shape than potential recruits to a US bloc, such as Brazil and Argentina.

The ability of the US to profit from freer trade may also be impaired by its flawed social policies. The EC has mechanisms to ease the human costs of economic integration; the US does not. When somebody in Dallas asked what Texas would do to help the losers from Mexican free trade, he was greeted with a stony silence. At a final panel session, I was struck that trade policy almost fell off the conference agenda: the bulk of the questions focused on domestic issues such as education and health care. Indeed, when a colleague lecturer sharply rebuked a panelist for praising the quality of Texas schools, the audience broke into its only round of spontaneous applause.

Yet the audience's priorities were not entirely misplaced. The gains from more liberal trade with poor countries will not be spread evenly. On the contrary, given the huge pool of Third World workers on subsistence incomes, downward pressure on the wages of unskilled workers in the US is likely to intensify, fueling support for new forms of protection.

The solution is to raise US skill levels by improving education and training while providing more generous assistance for temporarily displaced workers. But judging from the Dallas conference, little progress is likely on either front. For both social and economic reasons, I thus conclude that the EC is better placed than the US to make a success of regional free trade.

Limited victory for women

ONE OF the sayings of Dr Johnson was that nature gave women so much power that the law very wisely gave them little. Even if there was any substance in that statement for some time after the end of the 18th century, five law lords last week finally put paid to Chief Justice Hale's statement more than 250 years ago that a husband cannot commit rape upon his wife. In so doing they ended the law's indifference to the plight of some married women.

Immunity in law for marital rape has survived the multiple attentions of parliament over the years when legislation on sexual offences has been enacted. It is no surprise that the judges have now felt impelled to do a bit of their own legislating from the bench. Nonetheless the courts might have thought that parliament had intended to leave this particular sexual problem, which is strictly confined to the matrimonial home, well alone. And since the whole question of marital rape is currently being reviewed by the Law Commission, the judges might have adopted the strict constitutional line of simply reaffirming a bad but well-established legal rule while taking the opportunity to urge speedy legislation.

Legislating through a single case in the courts is never very satisfactory, simply because not all the ramifications of a particular issue can possibly be addressed within the court process. Only legislation by parliament can encompass all the myriad aspects of social policy. The proposition that rape is impossible in marriage was



JUSTINIAN

never a sound one. The essence of the offence of rape is that the male physically imposes his sexual will on the female without the latter's consent. The only reasonable ground for the purported rule was that a consent to sexual intercourse could be implied from the normal relationship of spouses. But there never was a good reason for treating this implied consent as a presumption of law that could not be rebutted.

That great 19th century commentator of the criminal law, Mr Justice Stephen, said that the consent to sexual intercourse was confined to the decent and proper use of marital rights. If a man used violence to his wife in circumstances in which her health or safety required or justified her in refusing her consent, he would at least have committed an indecent assault.

That's the point. Every rape, whether the woman is the man's wife or not, constitutes an assault. What value, therefore, is there in elevating socially unacceptable behaviour from an offence against the person into a crime of specific sexuality? Does the offence of an assault change its

criminal character because it is called indecent or because the label is altered to the emotionally charged crime of rape?

The crime of rape is carnal knowledge of a woman without her consent. Carnal knowledge is the physical fact of penetration, although very slight penetration suffices as proof of the offence. The completion of the sexual act need not have occurred.

It is a notorious feature of rape trials that an accused can properly defend himself, if he can show that he believed he acted with the consent of the woman. It is fanciful to accept such a defence in a case where it is clear the man had to overcome the woman's resistance by force, whether she was his wife or not. But in the absence of clear evidence of physical force or resistance, evidence about a man's belief in the existence of consent to sexual intercourse is always a difficult issue for juries to disentangle. Over the years the evidential problems facing prosecuting authorities have led consistently to an acquittal rate of about one-third.

Without any sexuality in the ingredients of the crime, prosecuting authorities will be able more readily to prosecute successfully the offender for any physical violence inflicted. The aggravation of the assault by the presence of an indecent or sexual purpose, and its unwanted imposition of male sexual dominance, should properly be dealt with at the sentencing stage of the criminal trial. Such a conviction for assault would receive punishment that is now appropriately handed down in the case of a convicted rapist, on a scale

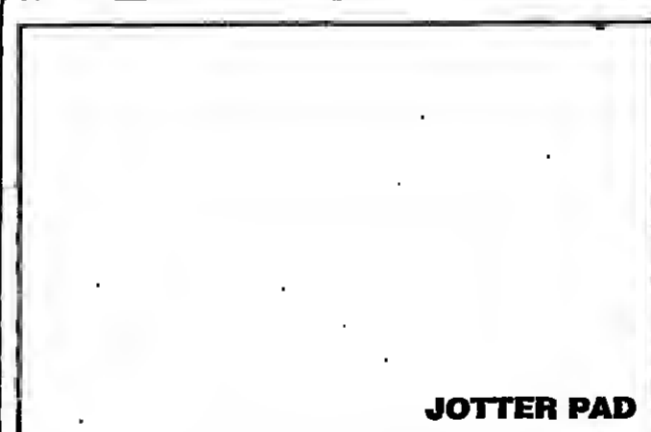
commensurate with the gravity of the particular criminal event.

The maximum penalty for rape is life imprisonment under the Sexual Offences Act 1956. The Advisory Council on the Penal System, in its report on Sentences of Imprisonment in 1978, recommended, on the basis of contemporary sentencing practice, that the maximum should be seven years. Parliament, however, under pressure from certain lobby groups, in 1985 actually increased the penalty for attempted rape from seven years to life imprisonment.

Only a small proportion of the victims of violent sexual crime in fact sustain serious physical injury. The injury is more related to the psychological wounding of the female victim, and that is never easy to measure in terms of the appropriate penalty.

If the threat or use of violence by a man to affect sexual intercourse is amply covered by the criminal law, it would leave (as it does now) untouched coercive sex, whereby a man forces his sexual partner to have sex for fear of losing marital or parental rights.

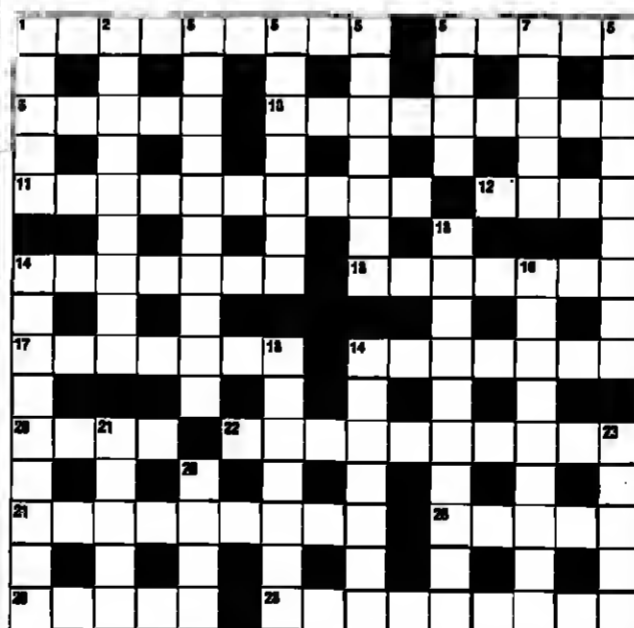
There is also a more intense public focus now on the incidence of cases of sexual harassment. But these are matters not for the full weight of the criminal law but for some civil process. Hence, the limited victory in the House of Lords for women in marriage is part of a larger problem of society's duty to protect women. That is a task not for judges but for parliament, informed by appropriate committees of review and inquiry.



JOTTER PAD

CROSSWORD

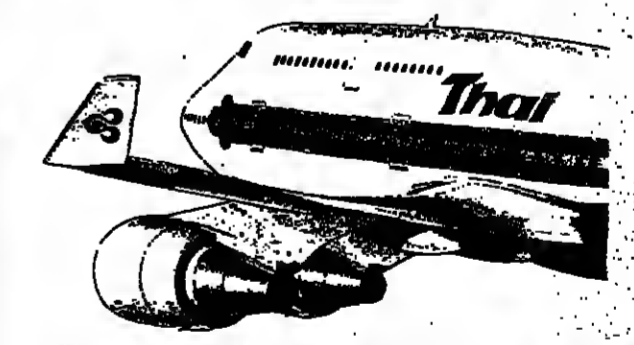
No. 7,683 Set by QUARK



- | | |
|---|--|
| 1 down operator (9) | 1 Periodical (5) |
| 6 1 down this for paper in holes (5) | 2 Aviator with PT exercising: one at the highest level (9) |
| 9 Prevent returns with no tips? Certainly not (5) | 3 Decoration given for added food value (10) |
| 10 Rag trade was initially slow in a certain direction (8) | 4 The French people in extra-terrestrial feature (7) |
| 11 It won't spread? Bad luck (4) | 5 Opposes one society surrounded by lies (7) |
| 12 Back the regulations lacking English? It's a disgrace (4) | 6 1 down this for drink container (4) |
| 14 Have a go at draw (7) | 7 Month in Capri (leisure time) (5) |
| 15 Raced around - lubricant made worse (7) | 8 Record tried out for 12 (9) |
| 17 Had the power and fell, we hear (7) | 13 Nuisance could be bewildered (10) |
| 19 Expired fund, etc (in trouble) (7) | 14 A tumbler should be well balanced (9) |
| 20 1 down this for training? (4) | 15 Roughly glued into atlas feature (9) |
| 22 State of unpreparedness in which tritium may get involved (10) | 16 Late watch for expert marksman (7) |
| 25 Experimental temporary home took in about four (9) | 21 1 down this for joke endings (5) |
| 26 1 down this to be stupefied (5) | 23 Join the beginner - one from the country (5) |
| 27 Stopped out east and inspected carefully (5) | 24 1 down this for data storer (4) |
| 28 Plant to go at a good rate (9) | |

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday November 9.

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